

DOCUMENT RESUME

ED 148 995

UD 017 883

TITLE Neighborhood Diversity. Hearings before the Committee on Banking, Housing and Urban Affairs, United States Senate, Ninety-Fifth Congress. First Session on Problems of Dislocation and Diversity in Communities Undergoing Neighborhood Revitalization Activity.

INSTITUTION Congress of the U.S., Washington, D.C. Senate Committee on Banking, Housing and Urban Affairs.

PUB DATE Jul 77

NOTE 232p.; Not available in hard copy due to print quality of original

EDRS PRICE MF-\$0.83 Plus Postage. HC Not Available from EDRS.

DESCRIPTORS City Demography; *City Improvement; *Community Development; Community Problems; Community Resources; Ethnic Relations; *Hearings; *Housing; *Neighborhood Improvement; Urban Population; *Urban Renewal; Urban to Suburban Migration

IDENTIFIERS *Senate

ABSTRACT

This is a report of the proceedings of Senate hearings on urban neighborhood diversity. Witnesses at the hearings included politicians and policy makers from various American cities. Statements from a number of individuals and committee discussion on the materials presented are included. Additional statements and data pertinent to trends in urban communities are also provided. Among the issues addressed are demographic, economic, ethnic, and administrative problems in American cities. The concerns of individual city dwellers and urban property owners are expressed. Renovation, renewal, and development in the nation's cities are themes which recurred throughout the testimony and data at the hearings. A number of charts and tables supplement information presented. (GC)

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NEIGHBORHOOD DIVERSITY

JAN 30 1978

HEARINGS
BEFORE THE
COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE
NINETY-FIFTH CONGRESS

FIRST SESSION

ON

PROBLEMS OF DISLOCATION AND DIVERSITY IN COMMUNITIES
UNDERGOING NEIGHBORHOOD REVITALIZATION ACTIVITY

JULY 7 AND 8, 1977

Printed for the use of the
Committee on Banking, Housing, and Urban Affairs

U.S. DEPARTMENT OF HEALTH,
EDUCATION & WELFARE
NATIONAL INSTITUTE OF
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U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1977

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NEIGHBORHOOD DIVERSITY

THURSDAY, JULY 7, 1977

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, D.C.

The committee met at 10 a.m. in room 5302 of the Dirksen Senate Office Building; Senator William Proxmire (chairman of the committee) presiding.

The CHAIRMAN. The committee will come to order.

This morning we begin 2 days of hearings on problems of neighborhood dislocation and the wisdom and justice in promoting economic and racial mix in communities undergoing neighborhood revitalization activity.

After a decade of gloom about the dim prospects for cities, the flight of the middle class, shrinking populations, and a shrinking tax base, a new generation is finding city neighborhoods attractive places to live and work. It is not just happening in Washington but throughout the country in varying degrees.

After decades of neglect, a limited but encouraging beginning is taking place in restoration of existing housing stock, and more affluent people are moving back into the cities.

The save-the-neighborhood movement has come of age. Now it is time to ask: Save the neighborhood for whom? Will the increasing pace of neighborhood revitalization yield healthy, diverse communities, with a mix of race, age, and income? Or will it merely dislocate the old, the poor, and the black residents from older neighborhoods which are newly attractive to young professionals?

Will it build more Georgetown's and more Southwest Washington's? Simply transplant the same people out of the elite suburbs into an elite section of the city?

Will it really provide the kind of healthy mix and possibility for growth that we may be able to encourage?

Almost 10 years ago the Douglas Commission warned that "We must ease the tension between central city and suburb, between rich and poor and especially between black and white." At that time, the fear was of a white suburban noose strangling an increasing black city.

It would be ironic in the extreme if affluent whites returned to the inner city in increasing numbers, to our pleasant surprise, but the gulf between black and white, and between rich and poor persisted.

How can public policy reconcile the need to upgrade existing housing stock and to attract the middle class back to cities with the even

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greater need to provide decent housing for the poor? How can we prevent the game of musical chairs that we had under urban renewal, which dislocated more poor people than it housed—which, I guess, is one of the greatest ironies of social policy.

The back-to-the-cities movement is an unexpected bonus. With affluent families finding cities attractive once again, our urban communities could become thriving, diverse, healthy places to live. Or they turn into resegregated enclaves for the wealthy, as the poor are compressed even more tightly into ghettos.

Far-sighted public policy can make a difference. Certainly, no single national program will fit all communities. We need a different strategy for a city like Washington, D.C., where the market is very tight, than in a city like Detroit where the problem is abandonment rather than dislocation. But I believe we do need a strategy.

Public policy must intervene to promote both revitalization of existing neighborhoods and housing opportunities for the poor. We might ask: Should public policy promote integration both in new suburbs and in newly restored city neighborhoods? Should public policy simply permit freedom of choice and let the economic and social factors work their way out?

The purpose of these hearings is to gather information on the extent of the problem, and hear from administration witnesses, public officials, community leaders, and scholars on what remedies are in order.

Our first witness has a plane to catch so I am going to ask him to come first, then we have panels following him.

I might point out that he was recently called by a well-known columnist "America's Most Powerful City Councilman." He hails from Hartford, Conn., and from a State which is known by all of us who are Democrats as the State of John Bailey, who was a very powerful figure.

In this column Mr. Pierce, who writes the column, compares our witness with John Bailey and says:

* * * as bosses go, there's a profound difference between John Bailey and Nick Carbone. Bailey savored political power for its own sake, and used it honorably. Carbone likes power, too, but what matters, he says, "is the ends to which it's used."

Carbone's ends are clear: to fight for the survival of beleaguered Hartford and its heavy population of poor white ethnics, blacks and Puerto Ricans. Hartford is a famed insurance, banking and government center, the capital of one of America's wealthiest states. But the city bears 43 percent of Connecticut's welfare case load. Poverty levels are extraordinarily high. Unemployment is estimated as high as 23 percent.

The stakes for Hartford, Carbone concluded in the early 1970s, were nothing less than the fiscal survival of the city. "So we had a vow, which then became a policy of local government—advocacy on behalf of the have-nots."

The result was a string of court suits brought by Carbone and his city council colleagues.

The first suit blocked seven Hartford suburbs from receiving \$4.4 million in federal community-development block-grant funds. Congress, the city argued, had required that the money be used for the benefit of low- and moderate-income families. But the Department of Housing and Urban Development was letting the suburbs earmark their grants for roads, sewers and parks and ignore the pressing regional need for low-income housing. Hartford housed more than 90 percent of the region's poor people, the city contended. Manufacturing jobs

and retail stores were fleeing to the suburbs. Said Carbone: "They were taking the profitable tax-paying businesses, but not the housing for the low-income workers. Through zoning, they had closed the door."

Well, we are very happy and honored to have this distinguished public official before us this morning, and it is a very fitting beginning for our hearing.

Mr. Carbone, will you come forward?

STATEMENT OF NICHOLAS CARBONE OF THE HARTFORD, CONN., CITY COUNCIL

Mr. CARBONE. Thank you, Senator.

I would like to thank Neal Pierce for writing that article.

The CHAIRMAN. It was a good article, wasn't it?

Mr. CARBONE. I can't complain. I used it for reelection.

I appreciate this opportunity to talk with you about efforts to revitalize cities in a way that will create healthy neighborhoods, that are diverse and integrated in every sense of the word—economically as well as ethically.

As suburban housing costs rise and as it becomes more and more expensive to commute long distances to work, we are seeing an increased demand among middle and upper middle class people for housing in our cities. We look on this trend in Hartford with mixed feelings.

On one hand, cities need a strong middle class in order to survive. The Council on Municipal Performance tells us that 61 percent of Hartford's residents live on incomes below the poverty line established by the Bureau of Labor Statistics. These people are, in effect, bankrupt. (And I defy any business person to try to run a successful business when 61 percent of his or her clients are bankrupt. It can't be done by private enterprise and it can't be done by a city government.) We know that we must attract back to the city middle-class residents who can maintain their properties, who can pay their taxes, who won't require costly social services, who can take an active role in civic associations. We need these middle class residents and we welcome them back to the city.

But we are also concerned. We don't want to provide middle-class housing at the expense of our existing residents, most of whom are poor.

We recognize and accept the fact that our poorer residents cannot leave the city. The lack of low- and moderate-income housing in the suburbs is forcing suburbia's children out of their hometowns. There surely is no room there for the urban poor.

How, then do we make room for the returning middle class without causing severe economic hardship for the poor people who already live in the city?

We must begin by recognizing housing problems as mere symptoms of deeper economic problems. It's relatively easy to predict that there will be serious housing problems in any city in which 61 percent of its residents are bankrupt. Landlords in our poorest neighborhoods in Hartford are walking away from their buildings, abandoning them to the bank or the city.

Subsidies, although important, are not the total answer. The Council on Municipal Performance found that the 96,000 out of 150,000 residents in Hartford who live below the poverty line have an average income gap of \$1,500 per person. Across the city, that's a gap of \$147 million that would be needed to bring all of Hartford's residents up to the poverty level.

We are trying to develop a comprehensive strategy in Hartford that will generate the \$147 million that is needed to break the cycle of poverty—and the despair, the frustration, and anger that are created by poverty. We know that poverty is expensive. It breeds crime, drug use, alcoholism, mental illness, suicide, housing abandonment. The cost of inaction, if it could be measured is much more than \$147 million.

Our strategy involves leveraging every Federal and State dollar available to the city, monitoring the enforcement of affirmative action laws, requiring all new municipal employees to live in the city, providing customized manpower training programs for real jobs that exist, using public money to create jobs that produce needed goods and services and help city residents lower their cost of living.

We're creating a citizens energy corporation, for example, that will put Hartford residents to work insulating public buildings and private homes. We're supporting the Maverick Corp., a nonprofit agency that provides work experience for hard-core unemployed city residents: ex-offenders and welfare mothers who lack high school diplomas and skills. This September, we're implementing a work-places program in our high school system that will equip high school students and unemployed adults with the skills needed to compete in Hartford's increasingly sophisticated job market.

Many of our people looking for work in Hartford—many of the people who can't afford decent housing—are unemployed farm workers. During the last 40 years, the number of farms in the United States has dropped from 6.8 million to 2.8 million. In 1935, one American in four lived on a farm. Today, fewer than 1 American in 25 lives on a farm. More than 30 million of these farmers migrated to urban areas in a 20-year period, hoping to build better lives for their families in the city—as earlier immigrants had done. But automation is killing the jobs that had provided opportunities for other unskilled immigrants.

More than 20 million farm workers have migrated to urban areas over the past 20 years, partly as the result of Federal farm policies. Competition from giant corporations, coupled with the high cost of farm equipment, rising taxes, and unfair tax regulations and loopholes that favor the corporate farm, and forcing working family farms out of business.

In 1950, not so long ago, 17 percent of the American workforce was employed in unskilled jobs. By 1975, those types of jobs amounted to only 5 percent of the entire American labor market. Think of it—the unskilled laborer can compete for only 1 of every 20 available jobs. No wonder there is so much anger, frustration, and desperation in city neighborhoods.

America's unskilled, unemployed citizens are city residents because in our traditional role as ports-of-entry, cities have provided

them refuge. While we do not shrink from that responsibility, we recognize that we must find ways to reverse the trends that are crippling our city.

Between 1966 and 1975, we lost 41 percent of our manufacturing jobs in Hartford. The percentage of Hartford households that are dependent on welfare doubled. The percentage of our labor force that was collecting unemployment more than doubled.

Hartford can't succeed—America can't succeed—if those trends continue. That's why we are working overtime to develop strategies that will help people break the cycle of poverty. I am convinced that we can do little to solve the housing problems of our cities until we solve the income problems of the people who now live in cities. That is our top priority.

We realize, however, that it will take time to help people raise their incomes above the poverty level—time for training, time for job development. With the demand for more home ownership already increasing in some of our neighborhoods from middle-class suburbanites, we recognize the need for a set of housing strategies that will hold down housing costs and prevent the wholesale displacement of our poor population.

Yesterday, in Hartford and other major cities, we faced a problem of housing abandonment. Tomorrow, unless we act decisively, we could face a severe housing shortage. Let's look at the factors that are contributing to that dramatic turnaround.

Inflation is pushing up the costs of new housing so rapidly that three out of four American families cannot afford to buy a new home. As a result, housing starts have fallen off and young, first-time home buyers are looking at older homes—and the best values are in the city. That is where the best values are.

Chase Manhattan Bank indicates that there will be a continuous capital shortage of at least 30 percent of America's needs, forecasting a continued slowdown of new construction—and the beginning of a period in which Americans will learn to appreciate that there isn't an unlimited amount of natural resources. "New and bigger and better" will no longer be an affordable life style. And that, too, will increase the demand for older homes in the city. In our own metropolitan areas we used to produce 4,000 to 6,000 new homes per year. We are now only producing 2,000 new homes.

There are other factors at work in the city housing market. A residency requirement now requires all new municipal employees to live in the city. Higher gasoline prices are making it more attractive to live close to work. The corporate community is encouraging its employees to buy homes in the city. And the people from the babies boom of the early 1950's are now forming households, moving out of apartments into homeownership. Priced out of the suburban market, many of them are buying homes in the city.

When we consider the potential problem of a housing shortage, it is important to keep in mind that Hartford lost 20,000 people, or 13 percent of its population, between 1970 and 1975. We experienced more than a population drop, however. As middle-class residents moved away, they were replaced by poor people—people who could not pay comparable rents. As a result, the population shift in those

5 years was accompanied by the abandonment of approximately 5,000 housing units. We went from 60,000 housing units down to 55,000.

As the middle class moves back into the city, we hope to adopt a marketing and incentive strategy that disperses new demand into existing areas of weak demand and high vacancy—neighborhoods that can absorb the newcomers without creating housing shortages that would result in higher rents.

The marketing will be done through posters and magazine articles on specific neighborhoods, as well as through the editorial policy of "Hartford Housing," a monthly listing of housing opportunities published by a city-funded nonprofit corporation.

We are studying the possibility of removing purchase and renovation incentives, such as our tax abatement program, from neighborhoods where housing prices have risen enough so that owners can maintain their buildings with the knowledge that they can recover the additional investment if they decide to sell. We want to increase the incentives to remain and to be greatest in those neighborhoods that can absorb the greatest increase in housing demand.

We are also encouraging the self-policing mechanisms of city residential areas, to achieve what political scientist Norton Long calls "physically secure neighborhoods." Volunteer street observers, working with our neighborhood team police forces, are helping to reduce violent crime and making people feel safe on our streets. Block clubs organized by groups like Hartford Areas Rally Together are recreating a sense of belonging and a pride in our neighborhoods. As that spirit spreads throughout the city, all of our neighborhoods will become attractive to potential homeowners.

It is important to emphasize the role that the "Section 8 Existing" program can play in insuring that the city does not reproduce the suburban pattern of income segregation as a result of increased demand. First, it can help tenants and maintain diversity in areas where, in spite of our efforts, housing prices rise. Second, it can be used to help landlords—preventing housing decay—until areas of weak demand receive an influx of new homeowners. "Section 8 Existing" is a good program; it is working well in Hartford—but there isn't enough of it.

We have, in fact, consistently, requested additional housing allocations of section 8 funds. About 8,000 families now live in one of various types of subsidized housing in Hartford, and we estimate that an additional 12,000 families are in need of a housing subsidy. Since 1974, however, the Federal Government has allocated section 8 funds for merely 594 units of existing housing and 68 units of substantially rehab units. We have still standing approximately 1,500 units of abandoned housing that could be converted into decent homes for poor people, and middle-income people, if section 8 housing was available.

We realize that if we are going to increase our middle-class population without displacing our poor population, we must create some new housing. In the downtown area, we are building luxury apartments which are in great demand. An abandoned warehouse is

being converted into housing and all of the 48 units were leased before the rehabilitation process began.

The value of our abandoned buildings becomes more obvious every day. We are studying ways to mothball surplus schools and industrial space until we can convert it to housing for an economic mix of people, including the poor. In some cases, we would like to experiment with housing co-ops, and we urge you to consider expanding the section 8 program to allow for home ownership, as well as rentals.

As another means of increasing our housing stock, we may sponsor the development of attractive, owner-occupied row housing on land leased from the city. The land would be leased, rather than sold, to lower the price of housing and to make it possible for the city to control on a continuous basis the future of land it recently paid so much to obtain in the urban renewal process.

We are considering, as well, the formation of a nonprofit corporation to purchase housing at its current low values so that the community captures the appreciation as value increases. We would purchase housing through a revolving fund in neighborhoods where our monitoring program indicates values will go up. The housing would be resold after appreciation, with tenants protected by appropriate controls and judicious use of section 8 housing. Profits would be turned back into other buildings.

These are some of our housing ideas for Hartford. Many of them do not yet represent official city policy. They are partly my thinking and partly the early results of a research project, funded by the Ford Foundation and supported by the city, that recently got underway.

We think we have some innovative ideas. However, unless the Federal Government is prepared to guarantee us a section 8 unit for all of our poor families, however, our housing plans will not prevent displacement. They will not guarantee strong neighborhoods with a healthy economic development in our cities and in our neighborhoods in order to achieve economic balance and integration. Without it—or massive subsidies—the most innovative housing strategies are doomed to failure.

Let's look at a few things the Federal Government might do, aside from the section 8 program, both to help the urban poor increase their income and lower their cost of living.

Tax reform that allows renters to take an income tax deduction for the portion of their rent that pays for property taxes and interest.

Tax subsidies for lower income homeowners in upwardly mobile urban neighborhoods would allow them to maintain their homes as assessments—and taxes—rise.

Incentives should be created to encourage banks to reinvest public funds on deposit in those banks for economic development and job stimulation programs in urban centers.

If that efforts lags, cities should be given every encouragement to create municipally owned banks for the purpose of stimulating economic development and housing investment.

Welfare reform should allow people to help themselves legally, without resorting to the hustle or antisocial behavior. We need to

help poor people maintain—or regain their self-respect if we are going to help them break the cycle of poverty.

We have the talent, the commitment, and the energy to make our cities work. The critical missing ingredient has been our failure as a nation to remember what Thomas Jefferson set out as the purpose of government. I think it is worth repeating: "The care of human life and happiness, and not their destruction, is the first and only legitimate object of good government."

Working together in a partnership at the Federal, State, and local levels, we can restore the purpose of government. And if we do that, we will save our cities.

Thank you very much.

The CHAIRMAN. Thank you, Mr. Carbone, for a really inspiring statement.

I admire your optimism, particularly as one who has been working hard with the very serious problems you have in Hartford.

What is the percentage Hartford represents of the population of Connecticut?

Mr. CARBONE. Our population went from 158,000 down to 138,000, so for a State that has a small population of 3 million, we are fairly small.

The CHAIRMAN. You have about 10 times as high a proportion, as would be appropriate, of the welfare cases in Connecticut. You say the population went down during what period, 1970, 1976?

Mr. CARBONE. 1970, 1975, we lost the 20,000 persons, according to the Federal census. It is a 13-percent drop.

The CHAIRMAN. Do you think the census figure is accurate? I know in a recent column it was pointed out there are some challenges as to the census figures.

Mr. CARBONE. I think the census population undercounts our Hispanic population in the city. I think the general direction is accurate because we went from 60,000 units down to 55,000. We lost in a period of 7 years 5,000 housing units of which we have already torn down 3,500 and we have remaining scattered throughout the city 1,500 housing units which we can't afford to tear down because we don't have the money.

The CHAIRMAN. Furthermore, it is pointed out you had an outward migration of families.

Mr. CARBONE. With children.

The CHAIRMAN. Therefore, if the housing units drop, and the number of people occupying each of them on the average drops also, so that would indicate you would have about the proportion of migration, the Census Bureau suggests.

To what extent do you feel—you ended on a very optimistic note, but do you feel sometimes you are on a treadmill where it is very, very hard to make any progress, that the extent that you create jobs, that you improve the conditions as far as crime is concerned, that you make the city more attractive, more people come in, poor people as well as well-to-do people, particularly poor people and therefore you can't make the kind of progress for people to remain that you would like to?

Mr. CARBONE. The city's population turns over about 20 percent a year, because we are a port of entry.

The CHAIRMAN. That big?

Mr. CARBONE. That is about the turnover in our population. We have about 80 percent of our housing stock is multiple family housing units, so we are a city which has a continuously changing populations. We serve as a port of entry for the entire region of three-quarters of a million people, so what we have lost, as people upgrade themselves as well as we solve the social problems, they become middle class; they have moved to the suburban community and what has replaced that person is another poor person, and in a 10-year period, our middle class population has gone down. Our poor population has doubled between 1965 and 1975.

So it is in and out, middle class out, and then back filled by a lot of poor people. What we would like to do is stabilize that. That is why we are trying to—

The CHAIRMAN. I see. You have pointed out a series of things you have tried to do to stabilize that. My question is whether or not you feel you are making progress.

Mr. CARBONE. I feel totally frustrated because the people from HUD don't want to finance housing if it is on land leases, so we can't—one of our strategies for the future is to control land and to lower the cost of housing by not selling the property, just by leasing the land and HUD doesn't like that policy, so we have difficulty financing through HUD any project that way.

The CHAIRMAN. Say that again. I am not sure I understand that.

Mr. CARBONE. We are trying to—

The CHAIRMAN. Give me an example, maybe.

Mr. CARBONE. In the South Arsenal housing project where the city, through the help of HUD with \$25 million, a whole parcel of land. We were forced to sell that land—

The CHAIRMAN. The city paid \$25 million for it?

Mr. CARBONE. Yes. Then it was written down by HUD, because you demolish the buildings, you clear it, and we were forced to sell that land to a developer for about \$2 million, and there was a public subsidy of about \$23 million.

We tried to lease that land to the developer, who was willing to take it on a lease, and have him create the housing—

The CHAIRMAN. How long-term a lease?

Mr. CARBONE. 99-year lease. HUD wouldn't allow us to do that. What we have done, we have gone to a 40-year sale with a right for the city to purchase for a dollar if it is no longer in use for that purpose, and we file that separately from the—after the HUD documents, a separate deal we made with the developer, but those are just some of the policies which cause us not to have innovative strategies within the city.

The CHAIRMAN. So what you are saying is you are frustrated in the ability to have the incentive to improve the property and profit when the appreciation of the property gains, because HUD won't let you do that. You have to sell. You can't lease it and therefore provide for a gain for the city. Is that right?

Mr. CARBONE. Yes.

The CHAIRMAN. You said section 8 was a good program, but not enough. That is true all over the country. It is true everywhere. But I just don't see how—I sit on the Appropriations Committee and I don't see any prospect you are going to be able to fund section 8 to the extent you would like to and everybody else who is in the position you are that would like to have it funded. The resources just aren't there.

I wonder how good a program this is when we have to fund it at such a low level. We have to do that for years to come. I don't see any prospect for being able to provide the full funding you call for, for all eligible people. An enormous percent of our people are eligible not only in Hartford, but throughout the country and we just don't have that kind of money.

Mr. CARBONE. I think we have to be realistic in that when you look at the cost of creating new housing units, which the Federal Government has done, and we have taken some figures of Hartford in the last three housing projects we have done with the Federal Government and we have found out over the past 4 years it cost the Government \$140 million for each unit we created, over a 40-year period. Land cost, equity cost, that is the subsidy over a 40-year period; \$140,000 per unit.

The CHAIRMAN. \$140,000 per unit. You said million.

Mr. CARBONE. \$140,000 per unit. All right.

If we take abandoned housing and we tear down 3,500 units, to replace those 3,500 units it is a lot more expensive to create them through new construction, so renovation and preservation with a section 8 existing subsidy we can save the 1,500 units within the city of Hartford.

OK. Over the long run that will be cheaper for the Federal Government. No. 2, if we are running out of natural resources and you look at the energy that you have to use to create new housing, we cannot afford to keep on wasting and tearing down and destroying the housing units within our cities.

So I think we have to find, and it is imperative that we find a way to keep housing up within our cities and keep it from being abandoned as it is being in all American cities and going under the ball and chain. I think a subsidy program such as section 8 is much more less expensive in all ways to the Federal Government and to the United States and to the nation.

The CHAIRMAN. As a matter of judgment, timing and what you have been talking about, too, isn't it? When you put as much emphasis as you do on existing houses. What it means is you don't really upgrade your housing stock the way you do when you build new housing. Furthermore, you don't provide the jobs, you don't provide the opportunity for economic growth to the extent you do when you build new housing.

Mr. CARBONE. I would disagree because I suspect—

The CHAIRMAN. I think there are undoubtedly situations, you are absolutely right, where it is more economical, more sensible, more logical, perhaps Hartford would be a good example of that, but there are many other areas where it would seem to me we could improve existing stock.

What concerns me, a situation where section 8 permits, as you know, money to be paid for existing housing, without any improvement, without any upgrading of the housing stock. What does that do?

Well, if you have abandoned housing that may be all right. If you have a vacancies. But where you don't have that, it simply means the rents go up. It means inflation, because there is more demand for housing as the Federal Government provides more money to pay that rent and no increase in housing stock, so I think you have to have both used and new housing.

Mr. CARBONE. Well, in Hartford, speaking for Hartford, section 8 is stopping abandonment. When we put out a section 8 housing unit, we do a housing inspection and make sure that unit is sanitary. We also have in the city of Hartford a Fair Rent Commission, which says if any landlord collects rent, he has to provide a safe and sanitary unit. So we monitor that.

Every section 8 unit is inspected to make sure it is up to code and it is a decent place to live. We are working further to increase the efficiency of that housing unit, because we are under consideration for winterization as a further requirement for a section 8 unit as a motivation to cut the energy cost and we are going to try to tie together in the future with our section 8 allocations.

If we allocate the section 8 to the Public Housing Corporation, which gets by all the redtape at city hall, and it is a very effective program in Hartford.

The CHAIRMAN. Do you support economically integrated neighborhoods, promoting an economic mix of people, including poor? Racial integration is a fair goal and public housing, but can economic integration work? Isn't one of the reasons people move into a neighborhood if they are affluent is because they like to associate with other affluent people, there is a certain social attraction, too, for affluent people?

Most people, there are some fine and unusual exceptions, but most people prefer to live with people with incomes close to their own, especially if their incomes are high, or low. Do you think it is practical to really set as a goal economic integration of neighborhoods? Isn't that awfully difficult?

Mr. CARBONE. I think there are some people who would feel as you describe. But there are other people like myself who are a little nuts and want to live in a neighborhood that is economically mixed, to get a broader lifestyle and a broader living experience and we are finding that is taking place within neighborhoods within the city of Hartford—

The CHAIRMAN. Do you really have neighborhoods like that?

Mr. CARBONE. Where people are moving back in with higher income and they want the neighborhoods to be economically and racially mixed and they are fighting to maintain those neighborhoods, so there are people who want that broader lifestyle.

The CHAIRMAN. I wonder how substantial that is? I think it is a great thing. Certainly most commendable. As you say, it is a much greater diversity and a much more wholesome kind of exposure to different viewpoints and so forth. It is a fine idea.

I just don't feel, don't see much of that on the basis of the people I see in my own State and around my neighborhood.

Mr. CARBONE. I think the economic forces of the future, sir, are going to force more people to look at that option. As the housing costs continue to go up, as the interest rates take place, as the cost of energy goes up and as people want to move closer to the workplace, more and more people will want to live in that kind of environment.

The analysis we did of the census in migration, who moved into the city and who moved out of the city into the suburbans, there was an analysis between 1965 and 1970, showed that the critical thing about neighborhood choice in Hartford was the school system, that those people moved into the city from the suburbans with incomes of less than \$5,000, with children, because they couldn't afford housing, except in city housing. Those people without children, over 15,000, moved into the city of Hartford. Those people with \$10,000 in incomes, with children, moved out. That is because of the school system.

I think if we can create a school system which works I think people will live in an economically integrated neighborhood, but if the school system does not work and it does not provide the parent a chance to provide an adequate education, people will move out, be they black, white, or Puerto Rican, out of that school system.

In the neighborhoods that have tipped to become all poor in the city of Hartford are those in which the school system broke down first, so I think the key to economically integrated neighborhoods is a school system which works. That is something that you—

The CHAIRMAN. There is no question that that is absolutely dominant for a family, for people with children, but many of the people coming into the cities now are singles or childless couples.

Mr. CARBONE. And they will move into neighborhoods.

The CHAIRMAN. They will move in and your experience is they will move in and integrate pretty well, even though it is a mixed neighborhood as far as economic incomes. Now, you rightly say housing policy must be tied to a job policy, but I wonder if your strategy is the correct one. I want to use subsidies to create more manufacturing jobs in Hartford. So the low income Hartford residents can improve their lot.

Wouldn't it make more sense to encourage middle-class people to move back into the city and to encourage low-income city residents to move to the suburbans, where there are more jobs for unskilled, or semiskilled workers?

Mr. CARBONE. In the Greater Hartford area, the analysis we have done, we have lost 41 percent of our jobs within the city manufacturing. The region picked up 14 percent. Unemployed registered with the Connecticut State Unemployment Service of Hartford residents is 13,000. Of that 13,000, I think, with less than high school education, it was something like 8,000 persons. There are not 8,000 semiskilled or low-skilled jobs in the suburban communities around Hartford.

We did an analysis of the want ads and 58 percent of the jobs that were advertised in the newspaper, you had to have at least a high school proficiency in order to qualify for those jobs, so we have—this is the term that best describes it. We have sixth grade un-

employed farmworkers residing within the city who can't qualify for the sophisticated, skilled jobs that exist in our economy. That's why—

The CHAIRMAN. These are in the suburbs or in the city.

Mr. CARBONE. Yes, the city.

The CHAIRMAN. What you are saying is that what you want to attract in the city are manufacturing jobs that don't require that degree of sophistication. Is that right?

Mr. CARBONE. Yes. And we want to have jobs that will match the skill levels to where we can afford to train people that are unemployed within the city.

The CHAIRMAN. Well, are you bucking the tide? Would it be easier to persuade the people to move out of the city to the suburbs and get the jobs than persuade the manufacturing plants to come in?

Mr. CARBONE. We are bucking the tide, in trying to do that.

However, the transportation system, the way suburban communities are spread out, the jobs are spread out, the transportation system does not work out.

The CHAIRMAN. That's exactly why it would seem to me the poor would be better off if they were out in the suburbs.

Mr. CARBONE. The point I'm making, I have a complaint with the Department of Transportation on this issue, the entire transportation system in the Hartford area and around most metropolitan areas take the people from the suburbs who have cars and run buses into the city, and they don't take people in the city that don't have cars and provide bus service to the suburbs where the jobs are.

Until we revise our transportation system, where we can provide public transportation to a jobsite over here for 6 people, a jobsite over here for 30 people, which is scattered out over a large region, it's most efficient to move the jobs back inside the city.

The CHAIRMAN. The other alternative is to move the people out to the job and you don't have to worry about transportation.

Mr. CARBONE. And you run into exclusive zoning in the suburbs, which are one lot zoning, and that's the case where Suburban Action is taking on a move by a plant out of New York into an area which is not providing any housing for workers in the skill level where the company is moving.

The CHAIRMAN. That's exactly the kind of thing that HUD can help with their community development money, in other words unless there is public housing permitted—

Mr. CARBONE. That's a joke, sir.

The CHAIRMAN. That's what you tried to work on in these suits.

Mr. CARBONE. I haven't seen one housing unit created in the suburban towns around Hartford and they still find a way to qualify for the money. I don't see the area office or the Boston regional office, I don't know about the Washington office—

The CHAIRMAN. That was the old HUD. That was the HUD we had under—

Mr. CARBONE. It's still the old HUD.

The CHAIRMAN. Under Nixon and Ford. You will be followed in testifying by new HUD officials. We will send you the transcript. On

page 6 you say you plan, as the middle class moves back into the city, to adopt a marketing and incentives strategy that disperses new demand into existing areas of weak demand and high vacancy—neighborhoods that can absorb the newcomers without creating housing shortages that would result in higher rents.

Mr. CARBONE. We have in the Connecticut State statute, the general assembly allowed you to institute a tax abatement program by declaring an area of the city a depressed area. We are also allowed now under winterization by the general assembly to fix taxes on solar energy, in winterization programs.

What we are thing of doing is targeting those tax breaks to the areas where there is housing vacancy and say, OK, to move into these neighborhoods we will give you this kind of tax break. If you want to move into this neighborhood you don't have a tax break and hope that incentive will take care of the vacancies and where it's weak. I don't know it will work. We are considering trying that strategy. It could be very divisive, because then you have different neighborhoods arguing, but that's under consideration.

The CHAIRMAN. Mr. Carbone, I want to thank you very, very much. You have been an excellent witness and it's most reassuring to have people with your social consciousness and your ability as a city councilman. I think it's the best hope we have in improving our cities and our housing problems.

I know the people in the city are concerned with this. Many people in Congress are. It's so much more convenient for city council members and mayors to try to build in their cities big office buildings, luxury apartments and get rid of big families, big poor families, because they are a crime problem, a school problem, and housing problem, and so forth, but you have done the reverse. You have taken on the cause of the people who need assistance and you have done a marvelous job. I hope it's the kind of example that other city council members and mayors around the country will follow.

As I say, you have made an excellent record. I want to thank you very much.

Mr. CARBONE. Thank you very much.

The CHAIRMAN. Our next witnesses are a panel of the new HUD, Robert Embry, Assistant Secretary for Community Development; Donna Shalala, Assistant Secretary for Policy Development and Research; and Geno Baroni, Assistant Secretary for Consumer and Neighborhood Affairs.

STATEMENTS OF ROBERT EMBRY, ASSISTANT SECRETARY FOR COMMUNITY DEVELOPMENT; DONNA SHALALA, ASSISTANT SECRETARY FOR POLICY DEVELOPMENT AND RESEARCH; AND GENO BARONI, ASSISTANT SECRETARY FOR NEIGHBORHOODS, VOLUNTARY ASSOCIATIONS AND CONSUMER AFFAIRS, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. EMBRY. Senator Proxmire, we have printed, written testimony that we will supply for the record, which I will not read now, unless you—

The CHAIRMAN. No, no. That's fine. We have had a chance to go over it.

Mr. EMBRY. I would like to summarize some of the points in it before we move on to questions.

First, I would like to praise you and your committee for having this hearing because you are among the first to point to this problem and draw public attention to it.

It needs public discussion. HUD is just beginning to think through the implications of this process in this hearing. It has caused us to think about it a little more rapidly than we otherwise would. We appreciate that. I think several points should be made in introductory matter.

First, from HUD's point of view reinvestment is a good thing. We realize that it is happening to some cities in the United States and we think it should be encouraged, not discouraged. I have testified before your committee on disinvestment over the past few years, and I think it is a consensus of those concerned about the city that there has been a probable loss of investment and that we should very much encourage this reversal.

Unfortunately, we don't know the extent of the trend of reinvestment. The data in this area is very poor. The article you referred to this morning, in the Washington Post, points out that the data indicates that the trend is, people are still moving still away from the city, and that the information that we have about movement back to the city is relatively anecdotal, refers to individual neighborhoods, but in terms of the gross, the net move, there may be a substantial number of people moving in and renovating housing and at the same time a substantial number is continuing to move out the other end of the city into the suburbs.

We don't know at this time the net effect of that. I think we run the risk of extrapolating from a relatively few signs to say the city problems have been solved and therefore we don't need to worry about them anymore.

We are very concerned about that.

The second point is, if reinvestment is happening or is to be encouraged, that that reinvestment not be at the expense of poor people. This is an unfortunate implication of certain types of reinvestment that no city that I'm aware of is adequately dealing with, nor does HUD have a clear statement of policy on this question.

We should realize there are a number of programs approved by this committee and Congress which already are mitigating some of the negative effects of reinvestment.

The majority of 312 recipients happen to be moderate income home owners who are backed, in spite of the abuses of 312 in some situations.

In the community development program, over \$350 million is being spent on rehabilitating housing for low and moderate income people, and we want to increase that.

The public housing program, which has been revitalized, can now be used to buy existing housing and to rehabilitate it, and this capability is being used in some cities to provide housing for people

within neighborhoods that are beginning to change, or which may change in the future.

Finally, section 2, both in the rehabilitation usage and its existing housing usage, is also a tool that is being increasingly used and can be increasingly used to meet these problems.

We know that a great deal was done by the Federal Government to encourage the movement of the middle class out of the city over the last 25 or 30 years. We also know that the income disparity between city residents and suburban residents continues to grow. That is, the average income of city residents is less than the average income of the residents of the suburbs and that gap is growing. We also know the tax burden of the central city, vis-a-vis the surrounding area, continues to grow. And the disincentive to return to the city remains.

There are many types of reinvestment. That term is used to cover some very different circumstances. The reinvestment may be in relatively stable blue-collar neighborhoods where the young people that once moved out of that neighborhood are staying and buying houses, or the present owners are reinvesting and improving their houses rather than letting them deteriorate, or the reinvestment may be taking place in a low income neighborhood with a substantial number of vacancies and a very low income population and by newcomers, rather than by people that are already in the neighborhood or related to people in the neighborhood.

The reinvestment may be new construction, rather than rehabilitation. That is something that we really have not adequately addressed as to how we encourage new construction in cities without involving displacement for middle class families.

The tandem plans and the other incentive plans that have been used over the past few years to promote nonsubsidized construction have generally promoted suburban construction and have not been targeted in any way to encourage the movement of the middle class back to cities in a way that does not displace the poor but adds to the housing stock of the cities.

We are very concerned about reversing that practice. We also should be aware, in talking about reinvestment, that there is a certain amount of turnover that takes place in a neighborhood whether reinvestment is going on or not. The national average is somewhere around 20 percent.

I know Councilman Carbone used that figure for Hartford. It's somewhat higher in inner cities where the population is lower, so that means after 5 years a number of residents weren't there at the beginning of the cycle.

So we shouldn't confuse that portion of the turnover that would happen anyway with that portion that takes place because of reinvestment.

Also, we are trying to achieve heterogeneity in city neighborhoods that are undergoing some movement of middle class into them. We should not ignore suburbs, where the main movement of middle class is, and we should not impose a burden for heterogeneity on cities that we are not willing to work for in the suburbs.

The legislation, as you point out, clearly calls for such heterogeneity, and we are working to achieve it.

Now, taking all of this into consideration, the question is, what to do about it from HUD's perspective. I would like to make three points on this.

First, as a preliminary position from the Department of Housing and Urban Development, we would like to work to encourage private reinvestment by upper and middle income home buyers in central city neighborhoods where that will benefit the city as well as that neighborhood and its residents.

Second, we should promote the protection of stable, racially or ethnically integrated neighborhoods in our cities.

Third, we should strive to achieve economic and racial diversity in redeveloping the already populated central city neighborhoods by maximizing the opportunities available to those residents in danger of being displaced.

There are specific statutes for HUD in carrying out these three goals, that are stated in our printed text, and they are available. I'm sure you are aware of them and they are available if you want to look at them.

As I indicated, there is surprisingly little information available, not only to HUD but to persons throughout the country concerned about this problem, and we are beginning to try to remedy that deficiency.

We need a great deal more information on urban reinvestment, and dislocation. We need to know what encourages reinvestment, what discourages it. We need to know how it proceeds, where it is happening, how rapidly, we need to know who is moving in, where they are coming from and why. We need to know how displacement occurs, how much there is, who is being displaced, and how rapidly it's happening.

We need to know what has been done locally to encourage urban reinvestment without causing displacement, and what has been the fate of those who have been displaced.

We need to know how rapidly the ratios are changing in neighborhood. We need to know how large the phenomenon is, how it's likely to grow, how it compares with other historic population movements such as those out of the city, and from region to region.

We do know that the stereotype that is used—that the movement back to cities is affluent white suburbanites—is not accurate. In the first place, our preliminary studies indicate that approximately 70 percent of those people who are buying houses in the city are presently city residents, the majority of whom are renters in the city.

Second, there is a substantial reinvestment going on by black city residents, both in new housing and in their own housing, which is a welcome new trend and evidence of increased pride and hope for many city neighborhoods.

We also know that the people moving in are not affluent. They are not upper class, upper middle class, they are primarily younger people who are not making a substantial amount of money, although their expected income is larger than most.

We are beginning to get the data that we need.

Dr. Shalala is here with me and will be able to address any questions you may have on that, but in addition to getting the informa-

tion which HUD is good at, we also need new information, which we are not always good at, and that is, the first approach that we are considering is to broaden the housing assistance plan, to encourage cities—to begin with—and perhaps to require them at some point in time, to analyze what is going on in terms of reinvestment in the city and what strategy they have in dealing with that reinvestment.

That presently is not happening in almost every city in the United States.

Second, there are a number of HUD tools that are available for a city that wants to undertake a strategy to encourage economic diversity in neighborhoods.

Now, your question to Councilman Carbone about whether this is realistic, whether we are working against human nature or American nature in 1977, is one that troubles us. It certainly is not the norm in America to try to live in an economically diverse neighborhood. On the other hand, Federal policy as manifested a number of ways, and the policy the Supreme Court has expressed in a number of different decisions, involving school integration, and housing integration, indicates that the Constitution of this country encourages economic diversity.

Not in every neighborhood, necessarily, but the option is there and we think the tools exist under the present Federal program, if properly used, if regulations are made sympathetic, and if they are used in a coherent way to greatly reduce the impact of negative reinvestment.

To cite a couple of examples, as was pointed out by Councilman Carbone, it's possible to use community development funds or conventional public housing funds to acquire houses in neighborhoods that are beginning to experience reinvestment and to have them be occupied by present residents, or low income residents who might wish to live in that neighborhood.

The question that arises is what percentage is a reasonable percentage, 80 percent, if you have 80 percent of them occupied, are you going to get any reinvestment?

Is 5 percent too low? That's something that can be worked out by the locality.

Secondly, the 235 program could be used in a way to encourage home ownership by present occupants of housing within these neighborhoods.

Third, section 8 existing housing certificates could be used as a relocation tool for anyone who is displaced, the renter who is displaced by rehabilitation.

And finally, there are a number of tools, some of them developed in Washington with speculation, some of them dealt with some cities of the country that freeze assessments, for home owners, low income home owners, and provide that their taxes that they otherwise would have paid, if their assessments had continued to rise, will in effect constitute a second lien on the house.

If they sell the house at some future time, at the appreciated value that they have to pay off the taxes then, rather than having to pay them off now and forcing them out of the neighborhood.

These are several points that we are considering. We have just begun this past month to develop a strategy on these points which we hope to recommend to cities and which we hope to have available to this committee early in the fall.

I might say, on Councilman Carbone's point about the suburb of Hartford, which strikes home with me, about HUD not paying attention, that the Hartford suburb has been turned down in this third year development request. We do hope—we are not anxious to turn down communities, I can't say that too often—but there are communities that are not willing to comply with the legislation and we must do that.

Thank you very much. With me are, of course, Dr. Shalala and Msgr. Baroni.

We are all available for questions.

The CHAIRMAN. Mr. Secretary, I appreciate very, very much your statement. It is an excellent statement. You were rather moderate in your assessment that, some of the programs hadn't been able to help poor people. Certainly urban renewal was not a program for the poor. It was a program for the cities to get rid of the poor, by moving luxury apartment buildings and moving the poor out.

The highway program has been devastating as you know, has destroyed more housing than we ever thought of building. Even the system that President Carter complained about in his campaign, then changed his position, the position of Mr. Carter that I disagreed with, that we should change our system of providing deductions for interest on mortgages on the income tax which is one of the biggest single housing subsidies.

That tends to help the affluent. The poor don't pay income taxes to the same extent. This increases the value and cost of the property for the poor.

Now we are concerned whether or not this new program of encouraging the influx of well-to-do people back into the cities is going to knock the poor, low income, moderate income people out once again, squeezing them again into ghettos and hurting them.

I am very, very happy that you are so sensitive to this, so concerned about it. When you were Baltimore Housing Commissioner you pioneered a program to acquire dilapidated housing for use as scattered site public housing. What was the effect on neighborhoods that otherwise were owner-occupied?

Did they tolerate some scattered public housing?

Mr. EMBRY. The problem with the program is that we could only use vacant abandoned housing for that program. Where you found abandoned houses, they were generally not in neighborhoods that had a majority of homeowners. They were generally in rental neighborhoods.

HUD has since changed this regulation very recently to permit the acquisition of existing houses that do not require substantial rehabilitation. We were preparing to use that on a metropolitan basis, and I think that if the city neighborhoods knew that they weren't the only ones that were going to have a house purchased on the open market, as it was changing hands for a low-income family, but they

knew this was happening in a nonconcentrated way on a metropolitan basis, that the reaction would be extreme.

If you add to that the negative reaction you get from the suburbs, you might end up with the same amount of disruption you would otherwise have. If it is only done in the city, it runs the risk of the school busing decisions that are limited to moving poor people, white and black from one area of the city to the other and not dealing with the largely affluent middle-class suburbs where the schools are overwhelmingly white. So our experience was, it was not with these neighborhoods, but with neighborhoods that already had abandonment problems.

The CHAIRMAN. Your second point on HUD's policies, was that we should consider the protection of stable, racially economically integrated neighborhoods in our cities as a great national treasure. Elsewhere you indicated a real sensitivity to the problem of persuading affluent people to live in neighborhoods where you have low-income people living, too, but this notion of economically integrated neighborhoods as a great national treasure, the implication is we have a large number of economically integrated neighborhoods in our cities now, that they may be threatened and should be preserved.

I wonder if that is really true.

Do we have many neighborhoods in many cities that have a wide range of income groups?

Mr. EMBRY. I didn't mean to imply any number. By the fact they are a national treasure, I would assume they are relatively rare. I can't give you a number—maybe Geno might want to comment. I am aware of a number of them, from my personal experience, that they do exist.

The CHAIRMAN. Give me an example. Are there any around here?

Mr. EMBRY. I am not that familiar with Washington. The south-east area of Baltimore has a range of incomes from welfare up to \$20,000 and \$25,000 and \$30,000, working families, white and black. There are other communities in our cities, in Baltimore, that have that experience.

Geno is much more familiar.

Ms. SHALALA. The near west side, the Hough City area of Cleveland is an integrated area.

The CHAIRMAN. We are talking about transition away from it, one way or the other.

Ms. SHALALA. The more stable areas, where there has been some reinvestment, include neighborhoods such as the near west-side area of Cleveland. Geno must know of millions of them.

Monsignor BARONI. There aren't millions of them. This country never believed in heterogeneous communities. We think by class or race or income and we never believed in that real diversity.

I think now there is a trend to deal with pluralism. I think Nick Carbone is a positive kind of person compared to a lot of negative types of people—those who didn't believe that diversity and pluralism among different kinds of groups provide broader life styles and intercultural societies, which are essential. Most neighborhoods like this are in chains. I think the north end of Boston, which is a

national treasure itself, is going to disappear, if the people who are already there don't have a chance to stay.

The CHAIRMAN. The best example, undoubtedly, is small towns, two or three rich families, sometime, relatively well-to-do families and then, of course, you have people with modest income, but elsewhere this is extraordinarily rare. I don't know if you noticed Galbraith's Age of Uncertainty, the program he had on the very rich, not just a matter of only rich being able to afford these places. It is a matter of conspicuous consumption, is a matter of ego-building for all of us, and all of us are tempted by it, we take pride in the fact that we live in a particular area, we live in Beverly Hills. That is part of your distinction. You live in Lake Forest, Ill., or you live in Grosse Point or in one of the wealthy areas around here. That is an elite distinction. It is a rare person who is likely to have the self-confidence and assurance and so forth, if you go down into the area of lower economic—

Mr. EMBRY. I don't think anybody is advocating a neighborhood that is 80-percent welfare recipients, as being an area that middle—

The CHAIRMAN. I don't think we want to do that. There are people that want to discredit this idea that take that view.

Mr. EMBRY. There has been no way for low-income people to live in neighborhoods, I don't mean Grosse Point or Shaker Heights.

We have built over a million public housing units and, as you know, in the earlier days you had to tear some down, which meant they would be located in low-income areas. It's only been recent years where we have been able to promote any kind of a spread. This didn't exist at all until a few years ago.

Monsignor BARONI. If I can continue on this point, I think the issue here, the question of neighborhood reinvestment, is how to improve and stabilize the kind of things we are talking about, Washington, Philadelphia, those kind of cities where people are moving back. The question is, how do we deal with speculation which moves out residents that should benefit by reinvestment.

The Community Reinvestment Act would say to a local institution, "What is your credit record for your area? Are you servicing the area?" There is also the essential ingredient of moving to other neighborhoods—I am studying the old FHA regulations which said "Don't move anybody into nonhomogeneous areas that look different." There are three kinds of issues in real estate: location was no. 1, location was no. 2, and location was no. 3.

Appraisals are essential to revitalizing cities and making reinvestment work. However, they are also the weakest link in all of this. I am very concerned about this, and hope to have some program strategies in this area which can also define, develop, and support strategies and people like Nick Carbone.

I hope you have some people here from Seaton Place in Washington to give you examples of such strategies. Who negotiates for the poor people, for the elderly, as to whether they can stay or leave? Who negotiates for the people that are going to be displaced? People that are there don't have the mechanisms to deal with the city and private sector.

I hope that Bob Embry is going to give cities more capacity to deal with neighborhoods. I would like to give neighborhoods some capacity to work with cities, and the lending institutions that say, "OK, what are some of the program options?"

Neighborhoods need a capacity to deal with racial tensions. You know, what I am afraid of, Senator, is what you mentioned. You mentioned the devastation of urban renewal. Who stopped that? There were people that finally said no—neighborhood people.

Same with the highway program. People finally said no. That was negative.

What is the constructive dimension of this? I am afraid that reinvestment in cities, I want diversified societies, is going to be aborted—that is the wrong word. It is going to be maybe stopped, stopped again by neighborhood people, you know, unless those neighborhood people have vehicles. I think The Woodland organization, the South Shore National Bank, those kinds of people, are willing to work with the community, to give people options there, provide diversity people and so on.

We need to give neighborhoods that kind of capacity to deal with those options, for the elderly and for the poor. You know what is interesting Senator?—The Federal policy does not recognize the role of mediating institutions that can help people cope with big HUD, big Sears and Roebuck, big Government, complicated Federal and State and local programs, to understand section 8, to understand options or to try to get some reinvestment program. You need an attorney to do that.

The CHAIRMAN. This is great. We certainly want that positive aspect. It is very very encouraging to get your input on that. But I think you are right also in calling attention to the enormous negatives we have in the past.

Isn't it true for instance, that HUD or FHA had laws which prevented local housing authorities from building or leasing outside its boundary lines and it prevented economic and racial integration in doing so.

Mr. EMBRY. Yes.

The CHAIRMAN. You say in your statement that you need to be sensitive to the dynamics of reinvestment to deal with the human problems which may result. In other words, deal with the problems of dislocation. Does HUD have any policy of giving priority to rehabilitation in its allocation of subsidy dollars, particularly in housing markets when the market is soft, for example, GNMA, section 8, 235.

In the Chicago SMSA we have testimony indicating between 1970 and 1975 or about 2.1 housing starts for every 1 family formation. Most of them in the outer suburbs, some of them subsidized. This acts like a vacuum cleaner in Chicago's older neighborhoods, draws people out, causing the market to soften even further.

In a city losing population where the market is weak, why not concentrate housing subsidy dollars on rehab, moderate rehab, and substantial rehab?

Mr. EMBRY. We agree and we are working toward accomplishing that. I might point out that there are nonsubsidy dollars such as FHA insurance. We should be encouraging the use of that program in the city wherever possible for rehabilitation and reconstruction. We cannot do that now. That is something we are coming up with recommendations on for this committee.

The CHAIRMAN. Now, recently there was a study of what happened in the second year of the community investment programs. We were concerned about the first year. It showed a bad spread of the funds; 50 percent more money went to people in the high-income census tracts than those in low-income census tracts. Less than half, 44 percent of all the funds went to persons in low- and moderate census tracts.

Between the first and second year of the program, the funds directed to low- and moderate-income census tracts dropped by 14 percent, from 51 to 44 percent of the funds.

The same funds directed to middle- and high-income tracts went up by 5 percent, from 34 to 39 percent of the total. I find that shocking and a perversion of the intent of the act.

That was done under the old HUD. I know you have cracked down somewhat and taken some decisive actions against proposals for certain communities, but is that enough? Isn't it time for a massive crackdown to stop what I believe is massive cheating on the intent of the act? What can we do about it?

Mr. EMBRY. Several points; some minor. One, of course, is the distinction not between low income and high, but between the neighborhoods that are low, moderate, and those that are not. Not to mitigate against the statistics, because I accent them as a trend that has to be reversed. We don't know what is happening in the third year, because we did not have enough time to change the regulations to affect this year's applications, which were beginning to come in when the new administration came in.

We issued a policy directive on April 15 which I believe you have seen and I know your staff has seen, which we think considerably tightens up on that question. The problem in many localities wasn't that they were cheating so much, was that the regulations weren't drawn in a way or the review standards were not drawn in a way that made it clear what they could not do.

April 15 was a step in that direction. We do not yet have the statistics and won't, preliminarily until August, next month, as to what the effect of that policy directive was, on the low, moderate, breakdown this year.

We hope that it reverses that trend, reverses substantially. We are assuming that the directive is not enough. We are redrawing the regulations right now for community development block grant year 4. We have been held up a little bit, because we are waiting for the legislation to finally clear. We want to get the regulations out in time to affect next year's redevelopment block grants, and I can assure you that we will be strengthening other regulations on that point, to make sure that a greater percentage of the money goes to directly benefit low- and moderate-income residents of recipient communities.

The CHAIRMAN. I hope so, because that is a conspicuous outrage. I agree with you, of course, in your initial point. There are people with low incomes living in high-income census tracts, but nevertheless, the trend is obvious, particularly and it is wrong that so much of that money goes to people that don't need Federal assistance.

How can we target GNMA policies to reencourage reinvestment in cities' neighborhoods?

Mr. EMBRY. I hesitate to speak for GNMA, but we are currently in cooperation with GNMA within HUD considering a policy that will hopefully be reviewed by the President's Committee on Urban and Regional Policy, chaired by Secretary Harris, that would direct the GNMA program much more toward cities and away from expanding suburban areas.

That policy has not been cleared and it is not official policy as of this point.

The CHAIRMAN. One of the problems that Monsignor Baroni raised, too, the problem of the speculators, the developers, who serve a very important and useful function, but they often do move into areas and tend to develop areas along economic class lines with the cost of the building space they develop, and so forth.

One proposal has been made as a means of damping down excessive appreciation of property values to have a neighborhood or non-profit organization to engage in land banking. Under this approach, the land bank operates as speculators. It acquires units, rehabilitates them and subsidizes them to the extent necessary to provide housing opportunities for low- and moderate-income families and this way, the fever or speculation in the market is damped down somewhat. Can community block grant funds be used for that purpose?

Mr. EMBRY. I would say, yes, whether it is done by neighborhood groups or done by city, one very clear possible response to this process is to have somebody, the housing authority, the city, or the community, acquire houses that can be made available to lower income residents.

As represented by Monsignor Baroni, who might want to comment on this, HUD is extremely concerned about strengthening neighborhoods and using neighborhoods to a larger extent than has been done in the past and this is one very fruitful way to use it.

Monsignor BARONI. As we indicated, Senator, we hope to come back with some strategies in this area. One thing I know you are interested in, and Councilman Carbone mentioned, too, was the issue of jobs and cities.

Experiences include The Woodlawn Community Organization, which, for instance, in building houses, created about \$20 million worth of construction and 700 jobs. Most of those jobs were non-manufacturing. They were service jobs in this neighborhood. This community corporation had tools; they had assistance in terms of attorneys, planning, developing, working with the city. Not fighting the city, but in alliance, and in partnership with, it became the instrumentality to use the tools of HUD and the city for neighborhood development, to revitalize the community and provide housing, as well as jobs. I think we need more tools.

The CHAIRMAN. Your office, you propose to increase technical assistance to neighborhood-based organizations to enable them to help longtime residents of neighborhoods undergoing revitalization remain in their homes?

Monsignor BARONI. That is going to be—we are going to recommend that as one of the program strategies.

The CHAIRMAN. How big a program will that be?

Monsignor BARONI. I think that is something we are going to discuss at HUD and we are going to propose that. And when we get that worked out, we will come back to you. I think that is essential. We need to find the Carbone and Kapinski types, who sit down with the bank and city officials and say, "Look"—sit down with Mr. Cooke of Philadelphia, big mutual savings person and say, "Look, help us to reinvest. We need other tools." I think more alternatives like cooperative housing options, and other kinds of vehicles are needed. But mostly, if local people, particularly more people don't have support, technical assistance support in planning, developing, then you are going to get friction, then you are going to get destructive, negative attitudes toward reinvestment, as we did against freeways, as we did against urban renewal.

The CHAIRMAN. Secretary Baroni, I run to work in the morning; I pass an apartment house that used to be teeming with kids; they used to run out, scramble all over the place, raise all kinds of dickens; they were as cute as can be, but I am sure they were a kind of pain to their neighbors. That has been changed; that apartment house has been upgraded, renovated; the rents have greatly increased; I am sure the costs of the apartments have; and the children are all gone.

The neighborhood has changed rather drastically. This happened at other places. Apartment buildings that house low-income residents are being converted to luxury apartments or condominiums. I would think that co-ops would be a natural remedy. What will HUD do to stimulate the formation of moderate-cost co-ops? Do you see a role for technical assistance there?

Monsignor BARONI. Yes. I think HUD's position on the urban co-op bank bill was strong and the Secretary took a position to support the bank bill. I used to live and deliver coal on Corcoran Street, where there were 25, 30 people in 2 or 3 rooms. Now, there are gaslights flickering outside and those other people are gone.

The people didn't go back to Southwest. They have moved from the 1700 block of Corcoran, No. 15, 16. There are speculators in there owning 12, 15 houses apiece.

I think we have to develop incentives for bringing back moderate-income people into the city but with keeping working class poor people intact.

The CHAIRMAN. HUD has promoted or helped co-ops in New York and Detroit. I understand, but for some reason, it wouldn't entertain a co-op application. Has that changed?

Monsignor BARONI. Isn't that attitude, as Mr. Carbone said of certain persons? I am in a co-op now. I couldn't find a place, nobody would finance it.

The CHAIRMAN. I am talking about the control here of the regional office by HUD here in Washington to make sure they comply with the law.

Mr. EMBRY. Well, we have our new regional administrators, as you know, that have just been appointed. We have some problems with the responsiveness of the structure to the central office which we are working very hard to correct. We hope that is one area that can be corrected.

Ms. SHALALA. I thought I might comment a little, Senator, on technical assistance, because HUD has had some experience with technical assistance through—indirectly in neighborhoods, in support of the urban reinvestment task force, specifically the housing neighborhood services project. I recently visited with the NHS Project in Cleveland. What is apparent is that we are going to run into the dislocation problem as we try to develop and sensitize Federal policy for the neighborhoods so long as we continue to destroy neighborhoods in the country with very blunt instruments, whether it is urban renewal or the highway program.

To save them, we need very fine-tuned expensive instruments, often one house at a time approach as part of a careful neighborhood strategy. We don't, without massive resources, know of any way of saving neighborhoods, except by taking a package of HUD's programs and other Federal programs and fine-tuning them.

It is apparent when you go out to neighborhoods and watch the neighborhood housing services projects. There they have to take a variety of programs and fit them to the needs of that community, and this is extremely complex.

My only point is that it is far more complex to revitalize and to save these neighborhoods than it is for any of us to destroy them.

The CHAIRMAN. I know it is very difficult and very complex. There are a number of things that we can do more vigorously than we are doing. We hope that our Community Reinvestment Act helps to encourage local savings and loans and banks to make mortgages they haven't made in the past.

The Philadelphia mortgage plan is a good example of a private group doing a good job: they made 1,700 loans in the first 18 months, modest, but in an inner city where no loans were made before.

Ms. SHALALA. The administration has, through its urban and regional policy group, a task force on redlining which has had its first meeting. We hope to come up with a set of recommendations.

The CHAIRMAN. I want to ask you about tax on speculation. The State of Vermont recently enacted a tax on real estate speculation. The purpose was to discourage developers from converting farmland to ski condominiums. A farmer that sells to developers is practically taxed out of business.

The D.C. City Council is considering a similar tax to discourage this in the inner cities. Is that a reasonable approach?

Ms. SHALALA. It sounds reasonable the way you presented it, but I would have to look at it in some detail.

The CHAIRMAN. Would you do that for the record and give us your response? In a great number of cities, urban renewal areas, private

investors own a good deal of land. It has been suggested we should emphasize "in-fill" housing, rather than building new towns in towns, a public policy should stimulate small-scale building on vacant lands in certain neighborhoods.

[The Department submitted the following answer for the record:]

TAX ON LAND SPECULATION

There appear to be at least two possible tax schemes which could minimize the profitability of land speculation in urban areas. A "land value increment" tax, really a supplementary capital gains tax, could be applied directly to parcels as they are transferred. Such a tax would be relatively neutral regarding the economic use of parcels and would not adversely influence any particular group in society. However, the potential revenues from this tax are likely to be small and could not be considered as a replacement for the current property tax.

An alternative and more fundamental change in the method of property taxation, site value taxation, could also decrease land speculation. Under site value taxation, only the land use of a parcel is subject to taxation; improvements are tax exempt. Site value taxation is often suggested as an alternative to the property tax but its institution would be a significant change in our system of taxation. The equity and resource allocation considerations of site value taxation could be quite serious and would require considerable research. For example, a shift exclusively to site value taxation would decrease the value of land with concomitant capital losses to current owners and increase the value of buildings and improvements on the land.

Both of these alternatives represent major changes in our current system of taxation and deserve close study.

The CHAIRMAN. Do you share that view and what is HUD doing to encourage cities to concentrate on "in-fill" housing construction?

Ms. SHALALA. We have encouraged "in-fill" approaches but not instead of new-towns-in-towns.

We would see a role for the new-town-in-town concept, as well as the family "in-fill" program.

The CHAIRMAN. What are you doing to encourage this kind of "in-fill"?

Mr. EMBRY. That gets back to the GNNMA question that was asked earlier. Is the need for a program to build nonsubsidized new construction in cities, with almost no new construction now, in most cities of the United States unless it is 236 or public housing or section 8. All the construction is taking place outside the city.

So some tool of that kind is needed. Very few people are building "in-fill" housing or other types of housing.

[Complete statement from the Department of Housing and Urban Development follows:]

STATEMENT OF ROBERT C. EMBRY, ASSISTANT SECRETARY FOR COMMUNITY DEVELOPMENT, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. Proxmire and members of the subcommittee, thank you for this opportunity to speak to you concerning this issue of Urban Reinvestment and its attendant impacts upon low and moderate income residents, on city fiscal policies, and on the policies of our Federal agency.

I would like to discuss with you today the nature of this issue and to attempt some definition of the phenomenon of what we are calling Urban Reinvestment; then I would hope to clarify some reasons why we believe it is appropriate to take action in guiding the forces we see at work; and finally, I will suggest some of the means at hand for more rationally defining the issue, bringing to

bear existing programs, and perhaps contributing to the growth of a hopeful trend and an encouraging direction for American cities.

In our testimony today, we start from the premise that urban reinvestment should mean balanced reinvestment for all racial and income groups. Our observation of the reinvestment phenomenon is that it is a small, hopeful trend that should be encouraged, but that where it is taking place it has the potential of displacing poor families, and that public policy must be adjusted to accommodate the needs of those threatened by displacement. We will outline here a set of suggested initiatives which we are now considering, but I must emphasize that the Department has already acted in a variety of ways to come to grips with this issue. The 312 loan program has been strengthened as a tool for this purpose. The typical user of a 312 loan is a low or moderate income homeowner. The Secretary has recently set aside 20,000 units of section 8 funds for substantial rehabilitation of city housing for low and moderate persons. Over \$250 million a year of Community Development funds are being used to rehabilitate houses, primarily for low and moderate income citizens. Our concentrated public housing program, now being revitalized, is being used to rehabilitate houses in cities for low income citizens. We have been strongly suggesting that FNMA not only encourage reinvestment but also assure that this reinvestment offer substantial options for home-ownership to low and moderate income persons.

To begin, then, a discussion of what Urban Reinvestment is and why it is happening we need to look first at one of the major characteristics of urban decline in the postwar period and that is, the loss of the urban middle class. During the past two decades, large numbers of middle and upper income families have chosen to live in suburban communities rather than in central cities. While this trend is well documented in comparisons of central city population figures with those of suburban or outside central city figures over this 20-year period, the case is simply stated that in just 10 years from 1960 to 1970, 56 of the Nation's 153 cities containing over 100,000 people lost population and from 1970 to 1973, 87 of those 153 cities lost population including 26 of 28 northeastern cities, and 29 of 41 north central or midwestern cities.

The loss of adequate housing joined with many other forces to bring about this population movement. Along with factors such as the migration of rural poor to the cities, highway construction, and the popularity of the automobile, the availability of housing has played an important role in encouraging this population shift to the suburbs. The middle class has traditionally been the major consumer of new housing or newly rehabilitated housing. Such housing has simply not been produced in any significant amount in center cities. This is not to argue that housing itself was the only factor in the development of the postwar suburbia. Indeed it was the entire "housing package" of schools shopping centers and other amenities which constituted the attraction. A comparison of building permits issued in 21 metropolitan areas from 1963 to 1976 illustrates my point: in every case areas outside the central cities show 7-to-10 times the number of building permits as do the central cities. In Milwaukee, the suburban areas issued 73 percent of the region's permits; in Baltimore, the suburbs accounted for 90 percent and in St. Louis, the suburban jurisdictions were responsible for 95 percent of the permits issued during that time.

We are aware that during this time, middle class families were not encouraged in any coordinated way to consider central city housing. Financing comparable to that available in the suburbs is often difficult to attain; lending institution practices sometimes make the choice of city housing difficult. Finally, after this prolonged period of middle-income taxpayer migration, most central cities had seen their tax rates climb to two or even three times that of neighboring subdivisions.

The situation I have described is certainly well known to this subcommittee. You have struggled with this problem and heard it described many times before. But what is unique about this testimony today is that we are bringing you a message of hope: there is a small sign of encouragement in this landscape which offers the prospect for an improvement in some city neighborhoods and perhaps also marks the end of a long period of decline. The trend is too recent in time and too small in numbers to conclude that the migration from our cities has ended. A leveling-off of the population shift may, however, be just over the horizon for some cities, but with this encouragement comes a

concern for the low and moderate income families who stayed in the city. We are concerned today that Urban Reinvestment may also mean the displacement of low and moderate income residents. We must consider what can be done to adjust public policy to promote diversity, to encourage this hopeful trend without doing so at the expense of these less affluent, frequently older, residents.

Before moving further in this discussion, I would like to offer some definition of what Urban Reinvestment is. Urban Reinvestment is essentially a rapid increase in investment—private or public or both—in an older urban residential area that usually—but not always—had experienced some decline in the past. The areas experiencing reinvestment cover a very wide range of neighborhood social, economic and housing characteristics.

Some have been all but abandoned, while others are functioning, healthy working class areas that suddenly attract affluent newcomers. Some are full of historic buildings, while others are just ordinary neighborhoods. Some are mostly white, others minority, and still others more or less stable, racially diverse. Some were begun by city governments as show-piece restoration projects, while many others are the result of purely private efforts. Finally, some areas experiencing reinvestment are either remaining more or less stable economically and racially, or are simply being repopulated, while others—and this brings us to the heart of today's testimony—are experiencing displacement of existing low and moderate income residents as the newcomers move in.

While there is much we do not know, some trends are clear. First, the studies of recent central city reinvestment by special census surveys 1970 to 1974 show an across-the-board increase of 8.7 percent among all types of home owners: existing homeowners, newcomers, homesteaders, blacks and whites.

Second, black homeowners tended to increase their central city home repair activity both in terms of projects and expenditures more than did white central city homeowners. Further, measured as either projects or expenditures, home improvement activity was greatest among homes purchased within the last 2 years. This would tend to be an expression of the growth of this reinvestment, we believe. But, home improvement activity in homes purchased between 6 and 10 years ago is also significant, and this suggests that these owners are improving these homes—reinvesting in a way that does not involve displacement but, in fact, promotes the neighborhood stability and diversity we are seeking.

As you can see, these signs are quite hopeful in an economic sense. Third, there is a perceivable trend underlying much of this increase in homeownership, toward a preference in cities for existing housing. During the 1970-74 study period, 80 percent of this reinvestment was accommodated by newly built homes and condominiums. However, the trend appears to be toward the use of existing structures. Today, 50 percent of the increase in homeownership in central cities is made up of existing housing.

There are some stereotypes already developing about who these reinvesting homebuyers are which I would ask you to look at carefully. Typically, we hear, these homebuyers are middle class white suburbanites flocking back into the city spurred by changing life styles, increased energy costs, and high suburban housing costs. While it certainly is true that suburban in-migration is happening to some extent, I would suggest to you that there are certainly many other, perhaps equally significant population groups buying in the city. Among these other groups making reinvestment are young adults buying first homes from both urban and suburban backgrounds. Other reinvestors are middle class urban blacks, former tenants in apartments where rents have escalated rapidly, and many other groups. As one might expect by reason of the amount of work involved in rehabilitating a house, the largest subgroup of these reinvestors are young between 25 and 34 years of age. It is significant, I would think, in rebutting the stereotype of in-migrating suburbanites, to note that between 1972 and 1975, a full 70 percent of these central city homebuyers moved from within the central city. Forty-seven percent of those had formerly been renters and only 23 percent former homeowners. Unfortunately, no hard quantitative data is available to measure the magnitude or character of the reinvestment at the neighborhood level.

But even information about neighborhood activity does not provide the kind of information which might describe changes in individual household welfare,

though, such as the necessity to move from an established neighborhood because of limited income. In sum, we have little hard, numerical information on the extent and impact of the reinvestment phenomenon at either the neighborhood, city, or national level. It is very clear that however prevalent, reinvestment in the center city, is only beginning to make a small dent in the fundamental economic disadvantage of the center city vis-a-vis its suburbs. And, too, it must be viewed within the perspective of a far larger movement, that is, the shift of employment and population away from the older metropolitan centers of the Northeast and North Central states to the newer growth poles of the South and West.

In terms of population, income, employment, and residential and nonresidential construction the increased growth of the "Sunbelt States" at the expense of the "Snowbelt States" during the past 15 years has been overwhelming. Perhaps the most telling statistics are reflected in the population shifts. In the fifteen year period from 1960 to 1975, the U.S. population increased by 18.8 percent. This growth was not evenly distributed throughout the country. While the Northeast generated a 10.7 percent increase and the North Central region 11.7 percent, these rates of growth are far below the national average. Population in the South increased nearly 24 percent and in the West by 35 percent. These regional differentiations are becoming more pronounced, until we find that today the South and West are growing at twice the national rate, leaving the older northern sections of the country approaching a stagnating, steady state condition.

Concurrent with these national trends, we have witnessed the exodus of central city populations, predominantly in the Northeast and North Central States, to the suburbs and nonmetropolitan areas. This phenomenon has continued through the past several years when, Northeast central cities experienced a net yearly loss of 125,000 families and North Central cities lost 142,000 families per year to the outlying areas.

But these population shifts carry added emphasis when one realizes that they represent drastic changes in the incomes of central city residents. As a function of selective migration coupled with the net decline in population in the brief period from 1970 to 1974, the income of outmovers from central cities averaged \$1,305 more per family than the income of these moving in. This represents a \$29.6 billion loss in the purchasing power of central city residents. Using a shopworn rule-of-thumb that 25 percent of household income is devoted to rent, the income loss translates to a decline of \$7.4 billion in central city rent paying capacity.

Overall, these substantial and continuing movements of population and income from the cities of the North and East to the suburbs and Southern and Western sections of the country, create a widening gap that still overwhelms the gains made by reinvestment. Clearly, in face of these trends, some national policy is needed which would work to encourage middle income reinvestment as a part of an overall strategy to encourage middle income movement back to the city.

The reinvestment process is one which has the potential for realizing not one but several important public objectives of critical concern at both the Federal and local levels. Reinvestment in existing neighborhoods can and has played an important role in increasing racial and economic integration, for strengthening the local tax base, improving the existing housing stock, using existing infrastructure, and providing an alternative to suburban expansion with its attendant environmental and energy problems. Of special importance, too, is the preservation of ethnic neighborhoods and the increasingly powerful role of neighborhood groups through preservation efforts.

It is encouraging to think that perhaps a corner has been turned in the decades-long struggle of the Federal-State and local Governments, as well as all of private corporations, groups and individuals to make cities more livable places with more decent housing for all. It is critical that we continue to encourage and support this hopeful trend which may provide the foundation for revitalized heterogeneous urban centers. At the same time, we need to be sensitive to the dynamics of reinvestment, and to deal with the human problems which may result. The reports of dislocation of low, and moderate income residents from some neighborhoods where reinvestment is occurring must be addressed.

Numerous factors are at play in the reinvestment trend. A study by the Urban Institute suggests that the relative cost of housing in metropolitan

areas has drifted to the advantage of some center cities. The housing stock itself may be desirable, because of certain historical or architectural features. To some degree the energy crisis may have increased interest in center city areas, because of proximity of work places. However, the suburbanization of employment has undermined the relative concentration of jobs once enjoyed by the center city. The efforts of public and private sectors to attract middle and upper-income families back to the city through financial incentives and public service activities may have had some effect. However, even in this latter area, it appears that much regeneration is occurring without any public sector stimulus, and the Federal and local role in dealing with questions of dislocation will vary accordingly.

Anyone looking at this problem must be careful to separate out the displacement caused by reinvestment from the turnover that takes place in any neighborhood in the absence of reinvestment. Nationally, we know that the turnover rate is 20 percent. We also know that in poorer areas of our cities, the mobility rate is even higher. Therefore, in the absence of reinvestment after four years over half of the residents of most neighborhoods will be newcomers.

Healthy reinvestment occurs when some of the newcomers are of a higher income than those leaving voluntarily. But the process becomes harmful when low income residents are fenced out against their will.

A second caution that must be made is against an exclusive focus on the city. If we are concerned that neighborhood change take place in a way that promotes economic diversity, we should extend that concern to the suburbs where houses are changing hands every day and new developments are being constructed, that promote consumer isolation rather than diversity. Let us not be so concerned about a relatively small middle class movement into cities that we ignore the massive middle class movements in the suburbs.

The dynamics which contribute to dislocation include many forces which are beyond HUD's control. But, accepting these two cautions, there are still problems when the economic nature of a neighborhood begins to change. Moderate income tenants of single and multifamily units may be evicted in order to rehabilitate them for middle or upper income tenants or homeowners. Continuity in the neighborhood is threatened if young adults from the neighborhood find that housing has greatly appreciated and they are unable to secure mortgages on suitable terms. Moderate or low income homeowners particularly the elderly on fixed incomes may face dramatic increases in property tax assessments, eventually forcing them to sell. Many homeowners may eagerly sell as reinvestment begins, thinking the neighborhood is still in decline or not knowing how much the property really is worth. Historic preservation requirements or increased code enforcement pressures may drive out long term homeowners (or tenants). Rent control may result in a conversion of moderate income rental units to high income owner-occupancy and again force out existing residents. Pressures to sell may be created by developers, realtors, or private investors. Absentee owners may hold properties without maintaining them, perhaps even not paying taxes, to "wait" for market improvement. Finally, there is the more subtle problem of dislocative influences on moderate income tenants and homeowners in terms of changing land use, employment and commercial patterns, changing neighborhood life-style, and changing neighborhood networks and institutions.

While it may be a limited phenomenon, it is important to examine the specific negative impacts which can result when there is large scale displacement of existing residents. Example include: Cost in social, economic and psychological terms to individuals forced to move and those left behind; racial and economic resegregation; creation of racial and class tension; "de-stabilization" of cultural/social elements of neighborhoods; shift of lower-income and minority people into outercity neighborhoods, or inner-ring suburbs which do not have the tax base to provide additional goods and services necessary for the dislocated; and undermining of efforts to stimulate reinvestment by and for existing residents.

Thus, our public policy must seek a balance of forces which creates and preserves heterogeneous cities, with racially and economically diverse neighborhoods. While we encourage reinvestment we must assure that residents of changing neighborhoods have an opportunity to reap the benefit of that change. How we can accomplish this is the final theme of this testimony.

Looking to what HUD's policy goals might be in addressing this issue of reinvestment, I would offer the subcommittee the following three points for consideration:

(1) We should work to encourage private reinvestment by middle and upper income homebuyers in central city neighborhoods where that settlement will benefit the cities as well as the existing neighborhood and its residents.

(2) We should consider the protection of stable, racially or economically integrated neighborhoods in our cities as a great national treasure.

(3) We should strive to achieve racial and economic diversity in redeveloping the already populated central city neighborhoods by maximizing the opportunities available to those residents in danger of being dislocated.

There is one added dimension that I would have you consider regarding the rationale for our involvement in this issue. That is the protection of the Federal investment which has already been made in these cities and which, in most instances, sets the stage for what is now a primarily private sector investment. If this long-sought goal of middle class interest in central city housing becomes a widespread reality, we must insure that the massive Federal expenditures of the past which set the stage for this return to the city serve all the people. We do not want these expenditures and activities of our past merely to purchase us a new generation of segregated neighborhoods, dislocation, and substandard housing for lower income persons.

There is thus a Federal interest here based on past expenditures. The specific authority for HUD's actions in pursuit of these goals, I would argue, is found in the Housing and Community Development Act of 1974. For example, the specific objectives listed under Title I, Community Development, Sec. 101(c):

(1) The elimination of slums and blight and prevention of blighting influences and the deterioration of property and neighborhood and community facilities of importance to the welfare of the community, principally persons of low and moderate income;

(2) The reduction of the isolation of income groups within communities and geographical areas and the promotion of an increase in the diversity and vitality of neighborhoods through the spatial deconcentration of housing opportunities for persons of lower income and the revitalization of deteriorating or deteriorated neighborhoods to attract persons of higher income.

Then, further in title I, application and review requirements, Sec. 102(a)(4), it is stated that the applicant for funding must submit a housing plan which: "indicates the general locations of proposed housing for lower income persons, with the objective of (i) furthering the revitalization of community, including the restoration and rehabilitation of stable neighborhoods to the maximum extent possible."

For all of the past involvement of the Federal Government in the problems of cities, there is surprisingly little known of the actual extent of reinvestment, its dislocative effects, or the success or failure of local efforts to promote and maintain racial and economic diversity in redeveloping neighborhoods. We are therefore reluctant to propose massive Federal intervention in this area until more is known. Nonetheless, the problem is real and some HUD action is required immediately. We suggest that any Federal action balance the twin objectives of supporting market forces with objectives for balanced income neighborhoods with minimum displacement of low and moderate income persons.

HUD's role in this issue should first be that of a leader for the entire Federal Government. As Mrs. Harris has stated, HUD should be an urban advocate for all Federal actions bearing on the development of our urban areas and on the interests of low and moderate income persons.

We should take the lead in encouraging other Federal agencies not only to promote reinvestment but also to blunt its dislocative effects. We must have the cooperation of other Federal agencies, of State and local governments, the private sector, and urban neighborhoods if we are to achieve our goals.

At present we know that private and public reinvestment in cities is occurring and we believe this in itself to be not only desirable but absolutely vital to the health of cities and their regions. We note that the Urban Reinvestment Task Force has achieved noted successes and that the Federal National Mortgage Association has discussed a new proposal to encourage its member banks to make mortgages for middle-income housing in the inner city. Many cities have "greenlining" and other reinvestment programs. Reports are increasing of the amounts of reinvestment in cities by individuals and lenders

all over the country. We want to encourage and support this reinvestment to the maximum extent compatible with HUD's responsibilities to low and moderate income persons.

One of the first problems here is for HUD to begin to develop some guidelines on what neighborhood diversity means, what are its specific upper and lower limits. This obviously will not be easy and to a considerable extent will reflect local circumstances both in individual neighborhoods and in various cities. Part of this problem, too, is to find some way to define neighborhood boundaries and organizational structure in a way not injurious to the neighborhood but still useful for public policy purposes. Obviously, we want to work with cities and encourage them to work with their neighborhoods in developing useful definitions of neighborhood boundaries and organizational structures.

We need much more information than is now available on urban reinvestment and dislocation. We need to know what encourages reinvestment and which discourages it. We need to know how it proceeds, where it is happening, and how rapidly. We need to know who moves in, where they came from, and why. We need to know how displacement occurs: How much there is, who is displaced, and how rapidly this happens. We need to know what has been done locally to encourage urban reinvestment without causing displacement and what has been the fate of those who are displaced. We need to know how rapidly racial and economic diversity is changing in neighborhood reinvestment areas.

On a larger scale, we need to know how large this phenomenon is likely to grow, how it compares with other historic population movements such as those to the outer city, the suburbs, or to other regions.

We are now beginning to get the data. HUD Policy Development and Research has several research projects underway that will provide information on the displacement of existing neighborhood residents. The evaluation of the urban homesteading demonstration program will provide neighborhood information on at least the 23 cities which received the first thousand homestead properties. The evaluation of the neighborhood housing service program of the Urban Reinvestment Task Force will give us information on the impact of that program on 45 cities where it is operating. Finally, we will be evaluating the effects of private investment generated by the CDBG program and its effect on neighborhood movement.

In order that we might more systematically organize the data needed to address this problem, we are considering the requirement in next year's CD application and Housing Assistance Plan of a statement from each city on the extent of current reinvestment and the definition of the effects of that reinvestment. Further, we are considering including this question ? ? ? ? ?

At first we would require this information without letting it affect an otherwise acceptable CD application; within a year, however, we would begin to expect some positive city action where the dislocation problem appears.

In requiring this data as part of a CD application, we would expect that applicants would incorporate this issue of reinvestment into an overall strategy for attracting middle and upper income residents back to the city.

Finally, let me reassert that we have come to no certain conclusions about these data requirements as yet. We have focused on the CD application as one possible source for generating the data, however, and it may well be that this will be our mechanism for making these determinations.

At present, we are studying a wide variety of policy responses to the reinvestment-dislocation issue for possible action under existing Federal programs or for new legislative initiatives. While we are reviewing this situation, cities may wish to do so also. We would encourage cities, other Federal, state and local agencies, as well as investors, neighborhoods and anyone interested in this problem to study the following proposals and evaluate these and any others in terms of our overall goals of promoting reinvestment while protecting stable economically and racially diverse neighborhoods.

Clearly a vital role not only in the success of reinvestment as it occurs but also in maintaining and promoting diverse stable neighborhoods is the participation of the neighborhood itself.

We would therefore encourage cities to begin or continue efforts to work cooperatively with neighborhoods to deal with reinvestment and other housing issues. We would propose a partnership between a city and its neighborhoods particularly where investment is now or is likely soon to occur.

There is significant experience within our Department to pursue a neighborhood-based strategy for carrying forward this notion of partnership. The Office of Neighborhoods, Voluntary Associations and Consumer Protection is vitally concerned with this issue and they are prepared to offer technical assistance, neighborhood research and demonstrations for programs which encourage reinvestment and discourage dislocation.

We would look to a neighborhood-based strategy which stressed community organizations where membership is open to all on a nondiscriminatory basis, which held regular elections and wherein some accountability was stressed. All notices of meetings would, of course, be public, and we would encourage a comprehensive agenda for the neighborhood group, comprehensive in scope, service, and function.

It would be our feeling that, preliminary to any announcement or reinvestment in any formal sense, there would be some record of the neighborhood or community organization having quietly worked at the issue with the city. Then, after having had time to develop a plan, determine needed and available resources, and agree upon some acceptable alternatives, it should be possible for a neighborhood to receive technical assistance funds and other support toward the achievement of stability and diversity.

The CHAIRMAN. Secretary Embry, Secretary Shalala, Secretary Baroni, thank you for excellent statements and for making a useful and constructive record with your responses. And now Mr. Smith.

STATEMENT OF FRANK SMITH, ADAMS-MORGAN ORGANIZATION, WASHINGTON, D.C.

The CHAIRMAN. Mr. Smith, you have a substantial statement that will be included in the record in full, including the loan policy agreement you have attached. We would like to question the three of you on specifics, if that is possible, so why don't you go right ahead.

Mr. SMITH. I will try to be brief.

I would like to thank you, Senator Proxmire, for inviting me to come over to talk about the project we are working on. My name is Frank Smith. I am chairman of the Adams-Morgan Organization, researcher at the Public Research Center, and chairperson of the Advisory Neighborhood Commission. I would like to summarize the paper for about 5 minutes.

The CHAIRMAN. Very good. Speak a little louder, sir.

Mr. SMITH. For an earlier hearing of the U.S. Civil Rights Commission, I did a study of the housing pattern in Adams-Morgan for the last 10 years, for the purpose of trying to determine what the relative increase in pricing was in single-family row houses in Adams-Morgan because, as you know, Adams-Morgan is a subject of speculative activity, and the Adams-Morgan organization was interested in this question because we are trying to maintain a racially and ethnically diverse community. And I was interested in it also professionally as a phenomenon which is affecting not only our neighborhood but other neighborhoods around the country.

There are two or three surprises, which I would like to talk about today, that are borne out in the earlier study, and I talk about in the paper here. One of them, which I don't talk about, I was surprised that there were as many boarded-up houses in the four census tracts we looked at as there were. There has been so much talk about speculation in Adams-Morgan and so much of the activity of displacement that I was very surprised to find out there were boarded-up houses.

The second thing that is surprising is the fact that there were apparently two classes of sales taking place in the neighborhood. Houses being sold back and forth between speculators at prices that were far below the average selling price every year, on one side. On the other side, there are houses being sold to individuals, what you might call investors, who were paying prices substantially higher than the average selling price for that particular year.

You might ask yourself, as I do, what is the difference between the same house sold between one speculator to another for \$12,000, then when it is sold from the speculator to the individual, it is sold for \$50,000 and \$60,000, when there has been no substantial rehabilitation on the property at all. We checked the "substantial rehabilitation" by looking at whether or not the particular developer or speculator had applied for any kind of a permit to do major repairs on property, plumbing, or electrical, or other kinds of permits.

The third thing that was surprising to me was the slow rate of increase in the price, average selling price, that has taken place over the last 10 years. Two examples: In census tract 4201, which is just an example, the average selling price in 1966 was in the neighborhood of \$32,000 to \$35,000. By 1975, the average selling price was still in the neighborhood—I think it was \$50,000 in 1975. Now, that is not a substantial increase in price, when you look at the fact there has been such a tremendous amount of inflation in our society overall.

The point I am trying to make, the rate of growth is not that very great in terms of the price, interests, and yet what you find when you look at the number of sales of properties in a particular community is that there are several houses that are sold at prices that are doubled what the average selling price is. Say the average selling price in Adams-Morgan in census tract 40—the average selling price in 1975 in that census tract was \$50,000. In 1975, there were eight or nine sales that took place in that census tract that were \$65,000 or more; three of them were \$100,000 sales.

It was interesting to find, by the way, in that same tract, there was at least one sale that took place in 1975, sold from one speculator to another for \$8,000. So my point, the point I am trying to make, I think that the speculators have done a disservice to the community and to the Nation in the sense that they have driven up the price of housing; they have caused an awful lot of dislocation in the community, and turmoil; and they have done all of this without improving the housing stock of the community. And ultimately they have driven up the cost of private housing to individual buyers who want to purchase as well as the tenants who live in the neighborhood, because the increased property values and taxes get passed on to the tenants in the form of increased rents.

Finally, I would like to go to my summary. As I say in the paper, I think that—this is a one-page summary. It says:

After more than a year of struggle, I am proud to announce that nine of these families will go to settlement to purchase their homes within the next week. The Seaton Street victory is very important for low- and moderate-income tenants in their struggle for decent housing and should be studied closely since there were some very definite ingredients that made this success possible.

First of all, there was a diligent and viable community organization, A.M.O., which was and is publicly trying to keep Adams-Morgan diverse and integrated.

Second, there was the strength of the residents of Street. When the case was started there were 26 families. Some of them accepted cash settlements from the developer—ranging from \$250 to \$2,500—and moved. Others were severed by the judge. So that in the end, there were only nine. These nine families withstood harassment by the developer and horrible housing conditions during a period when the landlord would make absolutely no repairs, and this through the worst winter Washington has seen in years.

It is significant that, of the families which accepted cash settlements and moved, not one was a household in which both a man and a woman were present. To put it more succinctly, all of the families which surrendered their rights to decent housing were single-parent families. This is important in light of the fact that a growing number of families in the inner cities are managed by only one parent.

Third, the law firm of Wilmer, Cutler, and Pickering was an essential ingredient in the success of the Seaton Street case. This firm ranks among the largest and most prestigious firm in D.C. Its lawyers have put in a great number of hours on this case. If they had been billing us, their fee for this case would perhaps have exceeded the \$150,000 settlement price for the houses. Alan Weitz and the other members of this firm are to be congratulated for their diligent work.

Finally, there was the public support: from the Foundations and from the neighborhood fundraisers, including the bake sales. There was the support of U.N. Ambassador Young and of the D.C. City Council, and there was considerable assistance from the D.C. Department of Housing and Urban Development, which said, in effect, "If A.M.O. can figure out a way to purchase the homes, the city will rehabilitate them."

At this point, the residents were on their own in the effort to purchase the houses; but, as fate would have it, A.M.O. was at this time beginning to negotiate with Perpetual Savings and Loan regarding the location of a branch in Adams-Morgan. Both A.M.O. and Perpetual needed a project to demonstrate that Perpetual would make loans to residents with low to moderate incomes.

I would like to stop right there and call your attention to the fact there is attached to my statement a copy of the loan agreement between the Perpetual Savings and Loan and the Adams-Morgan Organization. I think it is an important agreement in the sense that it recognizes the fact that community organizations have a right to ask that savings and loans develop affirmative lending policies for these neighborhoods. To my knowledge, it is the only one in the country. I do hope that you will take a look at it, and other neighborhoods do also, and maybe someday better agreements can be developed than the one we put together.

Thank you again.

[Complete statement of Mr. Smith follows:]

PREPARED STATEMENT OF FRANK SMITH, JR.

Mr. Chairman, I would like to thank you for the opportunity to appear here in order to discuss the problem of displacement in Adams-Morgan, a community of approximately 20,000, in northwest Washington, D.C.

I am the chairperson of the Adams-Morgan Organization, a Researcher at the Public Resource Center, and Chairperson of the Adams Morgan Advisory Neighborhood Commission.

DISPLACEMENT IN ADAMS-MORGAN

In April of 1977 I did a paper for the U.S. Civil Rights Commission, entitled "Re-Investment in Adams Morgan", in which I looked at the selling price for all row houses in Adams Morgan for the past 10 years, in the 4 Census Tracts which cover 90 percent of this neighborhood. These were tracts 38, 39, 40 and

42.01.¹ Census Tract 40, which comprises the Kalorama Triangle, had the highest average selling price for each year and it is instructive to begin with an analysis of that tract.

The average for all 40 row houses sold in Census Tract No. 40 was 53.4 thousand dollars per house in 1974. Yet 9 of these houses sold for \$65,000 or more. Similarly, although in 1975 the average for all 32 row houses sold in Census Tract No. 40 had dropped to 50 thousand dollars per house, 9 of these houses sold at \$65,000 or more. Thus, in both years a significant number of buyers (about 25 percent) were buying at prices far above the average price for that tract.

When people buy at such prices we can say that it is an individual, not a realtor who is making a speculative investment. In other words, the buyer is not buying at or near today's housing price for the area. Instead, given the slow rate of price increase that we observed over the last 10 years, the person is buying at prices far into the future.

This forces the new class of residents to be particularly interested in social and political causes that will make the neighborhood catch up with the price the person paid for the house.

We see evidence of this in the controversy surrounding Paul Tauber, past owner of a local saloon called Columbia Station. In November 19, 1976, Mr. Tauber sent a letter to the Federal Home Loan Bank Board in Atlanta in support of the Perpetual Savings and Loan application for permission to locate a branch in Adams Morgan. Mr. Tauber said that the middle class property owners needed the bank and that the opposition was characterized by a person whom he described as "a tenant, a transient". This statement is representative of many public statements by Mr. Tauber. A June 5, 1977 article in the New York Times quotes Tauber as saying that the displacement of the poor is "part of city life". "When change occurs, someone has to lose", he goes on. Such statements are indicative of the politics involved in trying to make the neighborhood "catch up" with the price paid for property.

Another important finding of this study was that there were two classes of sales taking place in Adams Morgan. One is the class of sales described above, wherein an individual purchases at a price far in excess of the average selling price of the area. The other class of sales involves a process by which speculators buy and sell from each other at prices far below the average selling price for the area.

The person buying in excess of the average selling price for the area is likely to cause displacement; for example one small family might buy a structure which had been occupied as a 4 family flat. However, the displacement caused by speculators selling to speculators is much more harmful and dramatic.

We will review the case of 26 properties on the 2200 block of Ontario Road, N.W., a case which involves 19 families and about 50 people. We will also review transactions on the 2700 block of Ontario Road, N.W. (involving 8 properties and about 50 people), and on the 1700 block of Seaton Street, N.W. (involving 26 properties and about 100 people).

In the fall of 1975 Barney Settlement House purchased 8 single family houses and a commercial property in the 2700 block of Ontario Road, N.W. Barney really only wanted the commercial property which housed its Senior Citizens Outreach Center, but had to purchase the package as a part of the sellers terms. The sales contract required that the property be delivered to the buyer vacant and subsequently more than a dozen low-income Latino families were evicted from these flats.

Several citizens groups protested and a petition was circulated asking Barney to retain the houses and to develop them for low to moderate income houses, in spite of these concerns the houses were boarded up, as Barney House and the would-be purchasers of the row houses, A&R Realty, went to litigation over the terms of the sale.

In early 1977, after more than a year of being boarded up, and with no major repairs, the properties were sold to A&R Realty for about \$26,000 each. (Barney had paid about \$20,000 each a year earlier.) Within a few weeks of conveyance the houses were back on the market, still un-rehabilitated, and at \$65,000 each.

At this price the houses are forever beyond the financial reach of the average resident of the neighborhood.

¹ This paper is available from the Public Resource Center, upon request.

The 2200 block of Ontario Road, N.W. abuts the old Henderson Castle (or "Beekman Place", as the developer now calls this high income town house development). In this block Kichko Investments bought 26 properties in the fall of 1976. Kichko served eviction notices to the residents, as reported in a March 12, 1976 article in the Washington Post. The firm plans to "develop" the properties and then to offer them for sale at about \$60,000 each. Again, this is a price which average residents of the neighborhood cannot afford.

The 1700 block of Seaton Street, N.W. has been the focal point of the Adams Morgan Organization's work for several years. On October 17, 1975 the Adams Morgan Organization (A.M.O.) held a press conference on this one block long street to protest the fact that the D.C. City Council was delaying the Anti-Speculation Tax Bill. At about the same time Centre Properties was beginning to "package" properties on Seaton Street for development, a process which is documented in records filed in D.C. Superior Court in connection with a section 301² case filed by Seaton Street residents.

In March of 1976 Centre sent eviction notices to 26 families on this street. A.M.O., which is a neighborhood organization covering Seaton Street, organized the tenants and sought the help of Attorney Johnny Barnes of the Georgetown Law School's D.C. Project and Attorney Alan Weitz of Wilmer, Cutler and Pickering, a Washington based law firm. The tenants alleged that their rights had been violated under section 301 of the D.C. Rent Control Bill because they had not been given the first right of refusal to purchase the property.

Today, after more than a year of struggle, I am proud to announce that nine of these families will go to settlement to purchase their homes within the next week. The Seaton Street victory is very important for low and moderate income tenants in their struggle for decent housing and should be studied closely since there were some very definite ingredients that made this success possible.

First of all there was a diligent and viable community organization, A.M.O., which was and is publicly trying to keep Adams Morgan diverse and integrated.

Second, there was the strength of the residents of Seaton Street. When the case was started there were 26 families. Several of them accepted cash settlements from the developer (ranging from \$250 to \$2,500) and moved. Others were severed by the judge. So that in the end there were only nine. These nine families withstood harassment by the developer and horrible housing conditions during a period when the landlord would make absolutely no repairs, and this through the worst winter Washington has seen in years.

It is significant that, of the families which accepted cash settlements and moved, not one was a household in which both a man and a woman were present. To put it more succinctly, all of the families which surrendered their rights to decent housing were single parent families. This is important in light of the fact that a growing number of families in the inner cities are managed by only one parent.

Third, the law firm of Wilmer Cutler and Pickering was an essential ingredient in the success of the Seaton Street case. This firm ranks among the largest and most prestigious firm in D.C. Its lawyers have put in a great number of hours on this case. If they had been billing us, their fee for this case would perhaps have exceeded the \$150,000 settlement price for the houses. Alan Weitz and the other members of this firm are to be congratulated for their diligent work.

Finally, there was the public support: from the foundations and from the neighborhood fundraisers, including the bake sales. There was the support of U.N. Ambassador Andrew Young and of the D.C. City Council, and there was considerable assistance from the D.C. Department of Housing and Urban Development, which said, in effect, "If A.M.O. can figure out a way to purchase the homes, the city will rehabilitate them".

At this point the residents were on their own in the effort to purchase the houses, but, as fate would have it, A.M.O. was at this time beginning to negotiate with Perpetual Savings and Loan regarding the location of a branch in Adams Morgan. Both A.M.O. and Perpetual needed a project to demonstrate that Perpetual would make loans to residents with low to moderate incomes.

² Section 301 of the D.C. Rent Control Bill states: "Any owner of a single family housing accommodation may sell such housing accommodation to a purchaser but only after such owner has given the tenant of such housing accommodation an opportunity to purchase such housing accommodation at a price which represents a bonafide offer of sale. The tenant shall be afforded at least 45 days within which to accept such offer of sale."

In the last week Perpetual sent to the Seaton Street residents its letter of commitment to make 90 percent loans for 20 years, with a provision that the terms will be converted to 30 years when the rehabilitation is completed.

Over the last months Perpetual and the various organizations and individuals whose signatures are affixed to the Loan Policy Agreement² have hammered out this document. It provides an array of loans not usually available. However its central feature is that the bank agrees to continue to make loans under the agreement in Adams Morgan even in the periods of "disintermediation".

It also provides for a Branch Advisory Committee to oversee the agreement and to review any loan application that an applicant wishes to have reviewed.

To paraphrase a bit, this agreement represents a small step for Adams Morgan but a giant step for banking. It will only help a marginal number of low to moderate income residents, mainly because the prices are already very high in Adams Morgan and relatively few people will be able to buy. Through the Branch Advisory Committee, however, the agreement does provide the community with a vehicle and with the incentive to locate potential home buyers.

The agreement is a giant step for banking in that it recognizes the fact that neighborhood groups have a say in what should be the lending policy of institutions in their neighborhoods. As others in D.C., and in other areas of the country assert this right, better agreements will be forged; but Adams Morgan was trying to extract a special lending program from Perpetual in a situation where the city had refused to develop a special lending program for housing in the area.

CONCLUSIONS AND RECOMMENDATIONS

Thus far we have shown that people are buying homes at very high prices in Adams Morgan and that this turnover causes displacement. We have also shown that there was a successful effort made to keep several low and moderate income families on Seaton Street.

The problem is that every neighborhood with a speculation problem does not have: a community organization such as the Adams Morgan Organization; the pro bono assistance of a large and important law firm such as Wilmer, Cutler and Pickering; a fund raising event co-sponsored by U.N. Ambassador Andrew Young, the largest area Savings and Loan Association applying for a branch in its area; the only one-block long "Community Development" designation in American of which I am aware, a designation which enables the city to do the rehabilitation; support from many local charities and organizations, including a \$25,000 grant from the United Planning Organization; and other unique circumstances. If these are prerequisites to success, the Seaton Street success may never be repeated.

Yet if we are to maintain racially and ethnically integrated communities the fact is that the easiest and cheapest time to do it is at the point of retention, before the people leave the communities. Therefore every effort must be made to maintain people who already reside in these "take off" communities.

With these considerations in mind, I recommend the following ways to emulate the *essentials* of the Seaton Street success:

Community organizations should develop Revolving Loan Funds for Housing, in concert with local charities, and should use those Funds as leverage at the local banks and in dealings with the Department of Housing and Urban Development. Community groups should also make loan policy agreements with neighborhood banks.

Local governments should place their housing priorities on the retention of diversity, rather than spending all their efforts on improving the tax base, in search of the almighty dollar. They should also develop affirmative deposit policies, which would place the public money only in those banks that develop loan policy agreements which consider the needs of low and moderate income home buyers.

The Federal prohibition against the use of HUD funds to purchase mortgages must be lifted, at least in areas such as those described here. In addition the Federal Government should develop affirmative housing programs which incorporate factors described above.

At a minimum, the city should pass a bill to discourage speculation sales by realtors in situations where no repairs were done. This "flipping", as it is

² A copy of the agreement is attached.

called, increases displacement, drives up the cost of housing to the ultimate buyer and does absolutely nothing to improve the city's housing stock. The proceeds from this bill could go to fund housing programs through nonprofit community organizations in speculated areas.

Because these rapidly rising property values get passed on to tenants as rent increases, a strong rent control bill should be adopted.

Unless significant steps are taken to assist communities that are experiencing displacement, a good deal of hardship and perhaps even civil disorder will occur in speculated areas as the poor find themselves facing evictions and having no place to turn for housing.

LOAN POLICY AGREEMENT BETWEEN PERPETUAL FEDERAL SAVINGS AND LOAN ASSOCIATION, WASHINGTON, D.C. AND ADAMS MORGAN ORGANIZATION, WASHINGTON, D.C.; ADAMS MORGAN ADVISORY NEIGHBORHOOD COMMISSION, WASHINGTON, D.C.; MOUNT PLEASANT ADVISORY NEIGHBORHOOD COMMISSION, WASHINGTON, D.C.

PREAMBLE

The parties to this Agreement share a common belief that Adams Morgan and Mount Pleasant should be maintained as socially and economically diverse neighborhoods. In furtherance of this common goal, the parties to this Agreement shall work together to provide home financing opportunities to the lower and moderate income and minority residents of these neighborhoods. This Agreement shall apply to the area represented by the Adams Morgan Organization, the Adams Morgan Advisory Neighborhood Commission, and the Mount Pleasant Commission. This area is referred to as the Agreement Area. This Agreement does not limit Perpetual's authority to extend loans not specified in the Agreement. Whenever the terms of this Agreement become inconsistent with regulations of the federal government, this Agreement shall be automatically modified to conform with such regulations.

Section A. Conventional mortgage loans

1. *Mortgage loans to owner-occupants of 1-4 family homes and condominium units.* Perpetual agrees to make the conventional mortgage loans specified below to any credit-worthy resident of the Agreement Area on owner-occupied 1-4 family homes and condominium units located in the Agreement Area:

a. Mortgage loans at 90 percent of value with private mortgage insurance to purchase single family homes priced at \$45,000 or less, and condominium units priced at \$30,000 or less where the condominium project is financially and structurally sound.

b. Mortgage loans to both purchase and rehabilitate single family homes and individual condominium units. (Purchase-rehabilitation loans). The purchase price of the home shall be \$45,000 or less in the case of a single family home and \$30,000 or less in the case of a condominium unit. The improved value of the property shall be no greater than \$60,000 in the case of single family homes, and \$40,000 in the case of condominium units. The mortgage loans shall be 90 percent of improved value with private mortgage insurance.

c. Mortgage loans at 80 percent of improved value without private mortgage insurance to purchase or to both purchase and rehabilitate single family homes or condominium units qualifying under provisions a and b above.

d. Mortgage loans at 80 percent of improved value to purchase or to both purchase and rehabilitate 2-4 family homes priced at \$65,000 or less. The rehabilitation portion of such loans shall be no greater than \$30,000.

e. Refinancing of outstanding mortgage loans at 90 percent of improved value with private mortgage insurance to provide rehabilitation funds. The improved value of the home shall not exceed \$60,000 for single family homes, \$95,000 for 2-4 family homes, or \$40,000 for condominium units.

2. *Mortgage loans on co-operative housing projects.* Perpetual agrees to make the conventional mortgage loans specified below to credit-worthy non-profit corporations for the purchase, or purchase and rehabilitation of multi-family dwellings located in the Agreement Area and owned or to be owned on

a co-operative basis (co-operative projects). Perpetual also agrees to refinance outstanding Perpetual mortgage loans on such co-operative projects.

a. Where units representing 90 percent of a co-operative project's value are presold, Perpetual shall provide project mortgage loans at 90 percent of improved value with private mortgage insurance on cooperative projects where 80 percent or more of the units will have an improved value of \$40,000 or less.

b. Where units representing at least 75 percent of a co-operative project's value are presold, Perpetual shall provide project mortgage loans at 80 percent of improved value where 80 percent or more of the units will have an improved value of \$40,000 or less.

Where a project mortgage loan will be used to finance a conversion from multi-family rental tenure to co-operative ownership, 70 percent of the building's tenants must consent to the conversion and 50 percent of the tenants must receive units after conversion.

3. *Conventional Mortgage loan terms.* Perpetual agrees to provide the conventional mortgage loans specified in this section available at interest rates no greater than those available to Perpetual's other borrowers. Perpetual also agrees to provide the mortgage loans specified in this section with the same maturity periods available to Perpetual's other borrowers in cases where a 1-4 family home, condominium unit, or co-operative project has a sound structure. Property securing mortgage loans specified in this section shall be valued at either market price or the price of comparable property.

Section B. Credit-worthiness standards for conventional mortgage loans

Perpetual agrees to employ the following criteria in determining the credit-worthiness of an applicant seeking a conventional mortgage loan under Section A of this Agreement.

1. All income of the applicant and applicant's spouse—including income from overtime and part-time employment—that is reasonably stable and will most likely continue shall be included as part of effective gross income.

2. Labor performed by a borrower to improve realty securing a loan shall to the extent that it increases the value of the property be considered as the equivalent of a cash investment for the purpose of calculating loan to value ratios.

3. In cases where the applicant's credit history is limited, the applicant's rental payment and employment record shall be used in lieu of a credit history.

4. Perpetual shall make loans to an applicant with a satisfactory credit record if the applicant's total payment on debt obligations and housing expenses conforms to the norms accepted by the Federal National Mortgage Association.

Section C. FHA/VA insured and assisted mortgage loans

Mortgage loans to owner occupants of 1-4 family homes and condominium units, to low and moderate income housing developers, and to co-operative housing projects.

Perpetual agrees to either make the FHA/VA insured and assisted mortgage loans specified below or to refer inquiries regarding such loans to mortgage brokers, mortgage bankers, or other financial institutions and, after the closing of such loans by the brokers, bankers, or financial institutions, to purchase at prevailing market rates such loans from the brokers, bankers, or financial institutions for Perpetual's own mortgage portfolio. Perpetual agrees to make (or purchase) such mortgage loans to Agreement Area residents or low and moderate income housing developers qualifying under FHA/VA eligibility standards on properties located in the Agreement Area. Perpetual shall be willing to make or purchase such mortgage loans at the maximum allowable loan amounts, loan to value ratios, and maturity periods.

1. Mortgage loans insured under FHA Program 203(b) to residents to purchase or both purchase and rehabilitate one to four family homes.

2. Mortgage loans insured under FHA Program 203 to developers to purchase and substantially rehabilitate single family homes that will be sold to residents with mortgage financing under FHA Program 235.

3. Mortgage loans insured and assisted under FHA Program 235 to residents to purchase substantially rehabilitated single family homes.

4. Mortgage loans guaranteed under VA Programs to residents to purchase one to four family homes.

5. Mortgage loans insured under FHA Program 234 to residents to purchase individual condominium units.

6. Mortgage loans insured under FHA Program 234 to developers to purchase and substantially rehabilitate multi-family rental projects for conversion to condominium ownership. Such condominium projects must include low and moderate income housing units. The building's tenants must receive at least 70 percent of the units. Where possible, at least 30 percent of the units must be reserved for Agreement Area residents obtaining permanent financing and assistance under FHA Program 235.

7. Mortgage loans insured and assisted under FHA Program 235 to residents to purchase substantially rehabilitated condominium units.

8. Mortgage loans insured under FHA Program 213 to non-profit corporations qualifying under FHA/VA eligibility standards to purchase, rehabilitate, or both purchase and rehabilitate multi-family dwellings located in the Agreement Area and owned or to be owned on a co-operative basis. Perpetual agrees to make such mortgage loans available at the maximum allowable loan amounts, loan to value ratios, and maturity periods. Where such a mortgage loan will be used to finance the conversion of a multi-family dwelling from rental tenure to co-operative ownership, 70 percent of the building's tenants must consent to the conversion and 50 percent of the tenants must receive units after conversion.

Section D. Mortgage lending priorities during periods of limited funds

During periods in which Perpetual has limited funds available for mortgage lending, Perpetual shall continue to provide the conventional mortgage loans on 1-4 family homes and condominium units specified in Sec. A(1) of this Agreement to individuals who are Perpetual depositors and the conventional and FHA insured mortgage loans on co-operative housing projects specified in Sec. A(2) and Sec. C(8) of this Agreement to co-operative housing.

Section E. Agreement area housing counselling service

The Adams Morgan Organization, the Adams Morgan ANC, the Mt. Pleasant ANC, and the Council of Hispanic Agencies and Community shall designate a person or persons to constitute the Agreement Area Housing Counselling Service. At least one person so designated shall be bilingual, and if there is more than one person, every effort shall be made to insure that one person is Hispanic. Perpetual agrees to contribute funds toward the salary and expenses of the Housing Counselling Service.

Perpetual shall provide the Housing Counselling Service with copies of its mortgage loan application forms. Perpetual shall also provide each Agreement Area resident who has applied for and been denied a mortgage loan at its 18th Street and Columbia Road branch office with a bilingual referral statement prepared by the Housing Counselling Service. When authorized to do so by a mortgage loan applicant who has been denied a mortgage loan at Perpetual's 18th Street and Columbia Road branch office, a member of the Housing Counselling Service may review the denial with the appropriate loan officer. Perpetual shall take no final action on a mortgage loan denial until the Housing Counselling Service and the BAC have completed their review.

Section F. Facilities at the 18th Street and Columbia Road branch office

The Branch Manager and Assistant Branch Manager at the 18th Street and Columbia Road branch office shall be empowered to act as Loan Officers. A part of their duties will be to counsel residents of the area on home purchasing. Every effort will be made to insure that the Branch Manager, or Assistant Branch Manager, is a resident of the Agreement Area. One of the loan officers, a new accounts secretary, and a teller shall be bilingual. Perpetual shall make available in Spanish explanatory information regarding loan applications, savings accounts, savings account rules, and proxy cards.

Section G. Branch advisory committee

Perpetual agrees to establish a Branch Advisory Committee (BAC) for its 18th Street and Columbia Road Branch office. The purpose of the BAC will be to assist Perpetual in meeting the needs of the residents of the Agreement

Area. The BAC shall monitor the Branch's activities and compliance with the terms of this Agreement. It shall have the opportunity to review mortgage loan applications where the applicant for that mortgage loan requests such a review. The BAC and its individual members are encouraged to inform the Branch Manager, President, and Board of Directors of Perpetual in all cases where the operation of the Branch fails to meet the needs of the residents of the Agreement Area. Should the BAC or any of its individual members at any time feel that their complaints have not been given due consideration by Perpetual's management, they may demand a meeting with a committee of Perpetual's Board of Directors to insure that their opinion has been aired at the highest level.

The BAC shall be composed of not less than seven nor more than ten persons. Perpetual shall appoint one member nominated by the Adams Morgan Organization, one member nominated by the Adams Morgan Advisory Neighborhood Commission, one member nominated by the Mount Pleasant Advisory Neighborhood Commission, and one member nominated by the Council of Hispanic Agencies and Community Groups. Perpetual shall appoint the additional three to six members from the following categories—home owner residents of the Agreement Area, tenant residents of the Agreement Area, and small businesspersons operating a business in the Agreement Area. If there are only three additional members, then one member shall be appointed from each category. If there are more than three additional members, then the member of members after the first three shall be appointed in the order in which the categories are listed above.

The members of the BAC shall elect a chairperson whose duty it shall be to call and conduct the BAC's meetings. The Branch Manager, or the Assistant Branch Manager, shall attend these meetings as a nonvoting member in order to keep the BAC fully informed of current operating conditions and policies. The BAC shall meet at least once a month. However, special meetings may be called by the Chairperson or by any three members of the BAC as the need arises in accordance with the established rules of the BAC.

COVENANTS

This agreement shall be incorporated into Perpetual's Application to Establish a Branch Office at 18th Street and Columbia Road, N.W., prior to any Federal Home Loan Bank Board approval of the application. In consideration for the incorporation of the Agreement into Perpetual's application prior to the application's approval, the Adams Morgan Organization, the Adams Morgan ANC, the Mount Pleasant ANC and the Council of Hispanic Agencies and Community Groups shall:

1. withdraw their opposition to the application;
2. not undertake or participate in a depositor boycott against Perpetual on account of its lending policies in the Agreement area;
3. not undertake or participate in a proxy challenge to Perpetual's management on account of its lending policies in the Agreement Area.

This Agreement may be modified by unanimous consent of the parties to the Agreement.

FRANK SMITH, JR.,
*Chairperson, Adams Morgan
ANC, Chairperson, Adams
Morgan Organization.*

STANLEY K. WILLIAMS,
*Chairperson, Mount Pleasant
ANC.*

GENE SMITH.

HORACE T. HARRIS.

THORNTON W. OWEN,
*Chairperson of the Board,
Perpetual Federal Savings
and Loan Association.*

FRANK SHAFFER-CORONA
*Council of Hispanic Agencies
and Community Groups.*

THOMAS J. OWEN,
*President, Perpetual Federal
Savings and Loan
Association.*

The CHAIRMAN. Thank you very much.
The fascinating Mr. Schur.

STATEMENT OF ROBERT SCHUR, EXECUTIVE DIRECTOR, ASSOCIATION OF NEIGHBORHOOD HOUSING DEVELOPERS, INC.

Mr. SCHUR. Mr. Chairman, my name is Robert Schur, executive director of the Neighborhood of Housing Developers, Inc., which is a nonprofit organization, assisting and working with nonprofit local community housing groups in various low- and moderate-income neighborhoods in New York City.

Our basic effort is to try to preserve existing housing stock, make it—bring it up to a decent standard of livable conditions, particularly for low- and moderate-income people.

Actually, we are very closely concerned with the problem which is occurring in certain neighborhoods in New York as well as in other cities of the return of more affluent middleclass and upperclass families to neighborhoods which are desirable.

We made some analyses in my statement of some common characteristics of these communities.

The CHAIRMAN. Your statement, like the statement of Mr. Smith's, will be printed in full in the record.

Mr. SCHUR. Thank you.

As I say, we have not only been able to identify neighborhoods where there is this middleclass return process taking place, but we also are pretty sure where it is going to happen next in various parts of the city. I think the same study can be done and analysis made very easily and accurately for almost any large city in the country.

The problem is, what should we do to try and insure that the poorer families who are living in these communities can stay there.

In New York City, the problem is particularly exacerbated because most of the residents of New York are renters. Among poor minorities, virtually all are renters. So the major area in which we have been working, and by "we" I mean the various neighborhood organizations in particular, have been trying to develop programs which will enable lower income residents to change from renters to homeowners or at least move in that direction, so that they can be assured of continued residence in their homes at costs which they can afford.

We have developed a number of programs which are described more fully in my written statement, but I would just like to mention a couple of them.

About 6 years ago we were able to convince the city of New York to lend money under its rehabilitation loan program to tenants in existing buildings who form cooperative organizations, and those loans were for the purpose of buying these properties from their present owners and rehabilitating them, then converting them into cooperatives.

If the loans were for a reasonably long term and if the interest rate is reasonably low, we have found that the carrying charges, the debt service, does not drive the rents beyond what most low-income people can afford to pay. Of course, another advantage of cooperative-type ownership is that you can build in self-management of these proper-

ties, which again helps to save costs which have to be reflected in the rent.

New York City, fortunately, has a very liberal tax abatement and tax exemption which means if you do even a moderate amount of rehabilitation in an old building, you can be virtually free of payment of real estate tax for a period up to 12 years.

You are also assured during that period of no increased assessment based on the improvements which you made. We have since moved from the direct purchase of property from private owners to trying to get a program going where—the city right now owns some 6,000 multifamily dwellings which it acquired through foreclosure for failure of the owners to pay real estate taxes.

Not all of the buildings are in the hardcore areas, by the way. There are many, many buildings which are being abandoned in the very same neighborhoods where the return of the middleclass is either happening or is imminent. I think Mr. Smith pointed out a similar phenomenon in a section in the Adams-Morgan section in Washington. We are not surprised, we have the same phenomenon going on in Manhattan, Brooklyn and elsewhere. We have negotiated a program where we can make a purchase from the city at a relatively low cost. The city has made a commitment to sell properties to organizations or committee organizations at a price as low as \$200 per unit occupied and as low as \$120 for vacant ones.

We have also made arrangements for some redevelopment funds for the rehabilitation of the buildings. Again, they turn into cooperatives, the tenants became owners and they have the security of tenure and control over what their living cost will be.

Further, we have developed a concept where tenants who will live in the buildings contribute some or all of the required labor costs toward in effect rebuilding what will be their own apartments.

We took that one step further and were able to marry CETA and law enforcement programs to the rehabilitation of these buildings, so today there are over 150 trainees being paid through CETA funds and Law Enforcement Assistance Act program funds who are learning on the job, while rehabilitating these buildings, and these individuals have a priority right to acquire apartments in these buildings after they are finished as cooperatives.

Also in that program, HUD has responded positively to a proposal which we helped to develop with the Urban Homesteading Assistance Board and other organizations, for a homesteading program which will utilize section 312 funds.

We had to rewrite the regulations to make it fit this particular demonstration program, but HUD is prepared to commit up to \$3 million of 312 funds to the city of New York, and the city has indicated it will set aside up to \$2 million of CETA job-training funds to carry on this program in two neighborhoods where vacant city-owned buildings will be turned over to this program, they will be rehabilitated and turned into tenant-owned cooperatives.

This, we hope, may set a pattern which can be replicable throughout the country. Even though most of our housing stock consists of tene-

ments and large apartments we do have a very large number of small homes, one- to four-family owner-occupied buildings in New York City.

This is the predominant housing stock in some neighborhoods which are coming under just the kind of pressure these hearings are all about. Here we have also been working. I would like to point to the experience of one group in the Sunset Park area of Brooklyn which has been able to acquire and rehabilitate and resell to new homeowners that are community residents some one-family homes.

The city is developing what it calls a small home improvement program using community development funds, acquiring buildings from FHA or using buildings which have gone into city ownership through nonpayment of real estate taxes, and then rehabilitating them and selling them primarily to community residents.

There are a lot of problems in that program that still have to be ironed out, but the basic concept is a very good one. We also have been trying to get, thus far without a great deal of success, the city to focus its 312 program, or that is, to focus where to put Federal 312 money into dealing with properties in these neighborhoods, particularly, and also trying to negotiate with HUD to get FHA insurance on the buildings after they are rehabilitated.

In other words, we have, through actual experimentation, through actual development, through actual implementation, been able to work on these various programs and see that they do work, and they can be made to work even better.

Thus far in the aggregate we have been working on a fairly small scale. I would agree with the previous statements that were made this morning, that a great deal of technical assistance is required.

One of the things which our organization does is to try and bring that technical assistance out into the community. It is even more important in local community organizations that are on the scene, that they receive this kind of technical assistance.

One of the things I would urge very strongly is that legislation be adopted or be strengthened which can provide funds directly to community-based nonprofit organizations to develop and give this technical assistance and to work together to develop these kinds of projects that we are talking about.

There is a bill introduced by Congresswoman Holtzman of Brooklyn, H.R. 7772, which does move in the right direction and will set up a program basically, of grants which can be given through the city governments to neighborhood groups.

In addition to that, we think there should be a concentration, at the Federal level, on this problem of dealing with the neighborhoods which are so-called—so to speak, coming back, in order to protect the rights and abilities of the lower income people who now live there who want to remain.

What this means is really providing more resources for the kinds of programs we are talking about. More money for rehabilitation, either through community development or through direct grants and directing some of the job-training funds or Law Enforcement Assistance Act funds into these programs.

I think Congress ought to take a look at perhaps developing limited and appropriate exemptions or modifications to the prevailing wage and training requirement of the Davis-Bacon Act where tenants themselves or unemployed community residents are really involved in doing the work and lowering the cost.

We are not really threatening the existing wage structure; for the most part these projects wouldn't be undertaken at all unless community groups and local residents join together to take the risk and take the plunge and get them done. I think what was mentioned a moment ago about the section 8 program, we may need shallow subsidies for some low-income tenants in dealing with some of this housing. The problem with the existing situation is the local authorities don't know anything about these programs and can't deal with them and in some cases the existing rent ceilings are too low.

There is every need for a fourth type of section 8 program tailored just to this type of moderate rehabilitation. Specifically it should be directed and priority should be given wherever possible to tenant-owned projects whether single family houses or whether they are multiple-family dwellings, owned by tenants or owned by non-profit housing organizations.

I may say, cooperative conversion of tenements is not always the ultimate panacea. Nonprofit groups should set up local nonprofit housing companies and provide whatever management assistance is necessary on an ongoing basis.

We are doing that right now in New York City. At the moment one of the most exciting programs is the community management program. At the moment 10 community nonprofit housing groups are operating under contracts with the city of New York, managing city-owned and controlled multifamily dwellings for the city. The city has given an indication it intends to triple the size of that program in the third community development year. That kind of thing has to be encouraged and should be exported out from New York City into other communities.

I think that a program should also, in line with the acquisition and rehabilitation of property, there ought to be a special part available where community groups can buy buildings which they can't now rehabilitate, but they can be warehoused and put aside against the future day when those rehabilitation funds and programs will be available.

Again, it should be in the neighborhood where this kind of revitalization is probably going to take place. I think also, again the section 312 loan program is an available vehicle. It has to be targeted. I think the local HUD offices have got to be told how to use it, the regulations have to be looked at and revised and I think that we are very frankly—I don't know about the current administration. They seem to be a little bit more interested in some of these problems than the prior one, but I would say that I think they still need a lot of prodding by Congress.

Thank you.

(The full statement of Mr. Schur follows.)

STATEMENT OF ROBERT SCHUR, EXECUTIVE DIRECTOR, ASSOCIATION OF
NEIGHBORHOOD HOUSING DEVELOPERS, INC.

Mr. Chairman, members of the Senate Committee on Banking, Housing and Urban Affairs: My name is Robert Schur. I am a life-long resident of New York City, where, over the past two decades, despite and in the face of widespread deterioration, abandonment and even massive depopulation of some of our more stressful neighborhoods, we have also witnessed the rejuvenation of other older sections of the inner city through the influx of more affluent individuals and families. I am presently the Executive Director of the Association of Neighborhood Housing Developers, Inc. Previously, I was a Deputy Commissioner and Assistant Administrator of the New York City Housing and Development Administration and before that Chairman of the Board of Directors of a Neighborhood Conservation Project. For the past twenty years (during ten of which I was a member and sometime chairman of the Committee on Housing and Urban Development of the local Community Board) I have resided in the mid-West Side of the Borough of Manhattan. I have witnessed at close hand both the precipitous decline and the major revitalization of that neighborhood and have observed the patterns of social and demographic dislocations, changes and hardships which accompany fast-paced neighborhood change.

The Association of Neighborhood Housing Developers, Inc. with which I have been associated for the past three years, is a non-profit city-wide organization whose membership consists of some twenty-eight neighborhood-based, non-profit organizations actively engaged in the preservation, maintenance, repair, rehabilitation and management of housing for low- and moderate-income residents of their respective communities. Our members are therefore vitally concerned with whatever takes place or is proposed, whether at the instance of the public sector or by private initiative, in the way of physical development or other intervention in their neighborhoods.

In New York City, the primary focus in most of the inner-city areas is still in combatting actual and to a lesser degree incipient deterioration and blight. With a total city-wide population that is absolutely declining; with building abandonment still sweeping through our less affluent communities and spreading noticeably to areas heretofore believed to be well-nigh impregnable fortresses of working- and middle-class stability; with previous efforts at large-scale government intervention through such devices as urban renewal, neighborhood development and our state- and city-sponsored Mitchell-Lama projects having wreaked havoc that it will take decades of hard work to overcome, our major efforts have necessarily been to fight the worst aspects of deterioration and to save what is still left of our more devastated areas.

Nevertheless many of us are rapidly becoming aware of another, although perhaps longer-range problem, namely: the return to inner-city neighborhoods of middle- and upper-middle-class, largely white citizens and their acquisition and renovation of the existing housing stock in these communities. This is not a wholly new phenomenon in New York City; indeed it goes quite far back in our history. Perhaps the first neighborhood in which it occurred—a long time before the Second World War—was in Greenwich Village. Once the home of blue-collar longshoremen, warehouse and transportation workers, leavened by poor but often very talented artists, writers and other creative personalities, it has long since been given over to largely very high rent apartment buildings and expensively renovated owner-occupied houses.¹ During the post World War II period, the rejuvenation of the Village spread northward to Chelsea which has by now undergone a largely (though not yet totally) similar transformation.

In the inner enclaves of the Borough of Brooklyn, similar developments are occurring. One of the most charming older neighborhoods of that Borough is situated right next to the downtown Brooklyn central business district (said to be the seventh busiest shopping area in the nation) and less than a fifteen-minute subway ride from Manhattan's Wall Street financial district. Known as Brooklyn Heights, this neighborhood was, by the mid-1950's, re-

¹ Some aspects of the largely unsuccessful struggle to retain the old character and population of the West Village is related in Jane Jacob's classic *The Death and Life of Great American Cities* (Random House, 1961).

converted from a somewhat polyglot largely low- and moderate-income area into an affluent, renovated (or as we call them, "Brownstoned") district—it is today perhaps the closest thing to Washington, D.C.'s Georgetown that we have anywhere in New York City.

From Brooklyn Heights, the middle-class rejuvenation has spread and is still spreading in every widening circles. It has largely engulfed the neighborhoods known as Boerum Hill and Cobble Hill to the south and Park Slope to the Southeast and is evidently encroaching into Fort Greene and Clinton Hill on the East as well as into the next ring of communities—Prospect Heights, Crown Heights, Carroll Gardens, and Windsor Terrace. Its failure to spread in other directions is due only to natural boundaries and the existence of heavy industry.

In Manhattan, besides the spread of Brownstone renovation from Greenwich Village to Chelsea, affluent rejuvenation has played a large part in transforming the character of the West Side, from 59th to 96th Streets and is spreading further north into the Hispanic enclave known as Manhattan Valley and it has made some inroads into the Clinton area below 59th Street.

Elsewhere in Manhattan, the movement of higher income people into low-income neighborhoods is still only incipient or else lies in the more distant future. It is not difficult to plot the neighborhoods where this is most likely to take place:

In Manhattan, the Lower East Side, especially the area between Houston and 14th Streets, has to be a prime target. Eventually, parts of Central Harlem as well as Hamilton Heights will also be affected.

In Brooklyn, the movement will continue its spread south and east to parts of Bushwick and ultimately into Bedford-Stuyvesant as well as further into South Brooklyn.

Queens and the Bronx have not been affected, nor are they likely to be in the immediate future. Parts of the north shore of Staten Island, including the presently lower-income and racially-mixed areas of West New Brighton and adjacent communities may well become targets, however.

Having identified some neighborhoods in New York City where the process is taking or is likely to take place, we may point to some common characteristics which seem to make some neighborhoods especially good targets for private owner-occupant or renter redevelopment. While I have not attempted to study other cities in any consistent fashion, my own casual observations of some neighborhoods in Washington, D.C. and Chicago, Illinois suggest that the characteristics may not be unique to New York. Two major and indeed necessary factors of these areas unquestionably are: (I) A present housing stock which, no matter how old or dilapidated, was originally built to luxury or at least upper-income standards for its time; and (II) Reasonable proximity to the central business district or location on mass transit facilities which give better than average access thereto.

A third factor which is often present and undoubtedly enhances a neighborhood's prospects for this kind of redevelopment is the presence of infrastructure amenities such as parks, good schools, libraries, hospitals, etc.

In the neighborhoods which have been mentioned, the first two criteria are present in every case; the third is usually also observed, at least to some degree.

Thus, we can say that private neighborhood rejuvenation is by no means a haphazard or catch-as-catch-can process; I believe that we can with considerable accuracy define those neighborhoods in which pressures on land values and therefore on rents and housing costs are most likely to occur by reason of so-called "back-to-the-inner-city" movement by wealthier residents.

Next, we should consider for a moment the effects of the process—whom does it harm as against those who are benefited and finally, what are people in these communities doing about it and, of greatest importance perhaps, what role can government play in maximizing the benefits and minimizing, if not eliminating, the harm for the greatest numbers of people?

Our concern, of course, is with the lower-income residents of these communities. These are, by definition, the poor and most often they are minorities. Sometimes, they are also elderly—the remnants, perhaps, of an earlier population who because of age, infirmity, poverty or overwhelming emotional ties, failed to join in the previous white middle-class exodus. In an uncanny number of instances, the racially or ethnically identifiable residents have not

lived in the area for a very long period of time. After all, some of the most massive migration of Blacks and Latinos to the cities of the northeast took place some years after World War II. Thus, the Lower East Side "Barrio" is hardly a generation in being; some of the Black communities in the Brooklyn neighborhoods now undergoing or threatened with Brownstone revitalization are even younger than that. By far the majority of these residents are renters rather than owner-occupants. Inherently (rent control laws² or no), their tenure is less stable than were they fee-owners.

These groups are invariably the victims of white, middle-class return. Short-term leaseholds are not renewed, statutory tenancies are terminated and the poor, the minorities and the elderly are forced to move. In some neighborhoods, private urban renewal of this type has caused as much Black removal as the public variety of ten to twenty years ago.

Even before the returning and new-found urbanites move in, the neighborhoods and their existing lower-income residents are put under pressure. What I have stated about neighborhoods in New York City that will undoubtedly attract new settlers in the reasonably foreseeable future is no secret. It is at least as well-known to real estate developers and speculators as it is to me. These people, and perhaps a few hardy middle-class urban pioneers looking to get in on the ground floor and for what will eventually prove to be a big bargain, are already buying up residential properties in the soon-to-be-revitalized neighborhoods, and either re-selling them or warehousing them against the future boom. Having seen 80-year-old brownstone houses on the West Side of Manhattan in advanced stages of deterioration, rise in price from below \$10,000 to more than \$50,000 in the space of a few short years, the attraction of this kind of speculative investment is readily apparent.

Ironically enough, even though actual renovation and occupancy by the new brand of immigrants may be several years off, there is no incentive to retain the present tenants—even on an interim basis. Rents are frequently so low that current costs of maintenance and operation are not even covered; it is cheaper to keep the building vacant than to rent it out. Besides, where housing code violations exist and maintenance fails to keep pace with on-going deterioration, tenants get in the bad habit of complaining to the public code enforcement authorities or, even worse, taking matters into their own hands by withholding rent. Real estate operators, looking for a re-sale or to renovate as soon as it becomes profitable, do not need these hassles. Finally, when the time to act comes, the property is worth a lot more vacant than occupied. For all of these reasons, the drive to depopulate the neighborhood of its older and poorer residents often precedes the actually re-entry of the higher-income class.

Unfortunately, once the revitalization process actually gets under way, it tends very rapidly to become overwhelmingly complete. Realty values then rise so precipitously, that virtually no one can stem the tide. Even the owner who is satisfied with his old tenants may be forced to act through having to pay higher real estate taxes as the neighborhood becomes "upgraded" and properties are re-assessed. Thus, if nature is allowed to take its course, these older neighborhoods, whether they were previously all-Black, all Hispanic or integrated, soon become all middle-to-upper-income and therefore either all or overwhelmingly white. The eviction of the older inhabitants, regardless of race or ethnic character, will tend to approach one hundred percent.

The ultimate result, of course, is that not only are people driven from their old houses and neighborhoods and thereby bereft of their settled friends, relatives, associations, schools and community organizations, but also that the cherished goal of urban redevelopment of integrated and diversified communities is once again defeated.

Can anything be done about this process? We firmly believe that the answer is "yes" and in fact community groups in some parts of New York City are already hard at work. Let it be said at the outset that no enlightened group of residents seriously opposes any and all "outsiders" from coming into and helping to revitalize their neighborhood. It is as sterile and even more uncomfortable for a community to be all poor as it is to be all wealthy. The opposition of the poor is based on their foreknowledge that if the redevelopment

² Rent control laws almost invariably permit eviction and decontrol for substantial renovation or rehabilitation as well as where the fee owner desires to occupy the premises for personal or family use.

process once starts it tends to continue unchecked until there is no room for any of the older residents to remain.

Our answer, therefore, is to attempt to control the process by sufficient intervention to assure that all of the present residents (and their children when they grow up, as well) who want to stay, will be able to do so and that their housing will also be improved to at least minimum standards of health, safety and decency. At the same time, more affluent citizens who want to come into the community should not be prevented—in fact ought to be encouraged—to do so.

One way (we think it is the best and in both the short and long run the cheapest way) to accomplish these goals, is to assist local residents to obtain permanent control through ownership of their housing. Community housing groups in New York City are pursuing this objective in a variety of ways, which I should like briefly to describe.

In neighborhoods where private owner disinvestment is still evident, even though eventual resurgence is probable, it is possible for tenants, acting collectively, to purchase multi-family dwellings from their private owners at relatively nominal prices. Between 1971 and 1975, the Community Development Branch of MFY Legal Services, Inc. assisted the tenants of six occupied tenement buildings on the Lower East Side of Manhattan to acquire ownership of the properties and to have them renovated. These projects were accomplished with the aid of direct rehabilitation loans from the City of New York, which covered 95 percent of the total project costs. Acquisition costs ran \$1,000-\$1,500 per dwelling unit and rehabilitation and other costs came to around \$6-8,000 per unit. Thus, for a cash outlay of less than \$500 per apartment³, tenants could acquire ownership and secure a substantially upgraded and modernized house. The buildings were converted into cooperatives, owned by the tenant-occupants. These projects (as well as others in several parts of the city) demonstrated that substantial renovation (including complete new heating, plumbing and electrical systems, new roof, new windows and apartment entrance doors and complete new kitchens and baths) could be accomplished with tenants remaining in occupancy throughout.

In neighborhoods like the Lower East Side, as well as in other areas already mentioned, the City of New York is the owner of a great many buildings which it acquires through foreclosure for non-payment of real estate taxes.⁴ Community groups have been quick to see these buildings as excellent resources for ownership transfer to low-income tenants and for their physical improvement. On the Lower East Side, Interfaith Adopt-a-Building has helped tenants acquire several multi-family buildings from the City. In Harlem, a once-magnificent seven-story elevator apartment house, containing 47 apartments of five, six and seven rooms each has been similarly acquired and renovated. Here again, tenants are assisted to organize a special type of non-profit corporation to which, under state and local law, the City may convey buildings by negotiated sale. The price generally is around \$200 per unit. A rehabilitation loan from the City provides funds to rehabilitation. Where the interest rate charged is low and the payment period a reasonably extended one (say thirty years), the costs of acquisition and rehabilitation can be financed at amounts which will not require increases in tenant carrying charges (rents) beyond the tenants' ability to pay. Careful tenant management, assisted by a local community housing group, can further reduce costs of operation and maintenance.⁵ And these exemption and tax abatement provisions for rehabilitated dwellings.

A further program which some community groups have used to stimulate home ownership and reduce costs is the "sweat equity" idea. Instead of hiring buildings also take advantage of New York City's very liberal real estate tax

³ Under Section 321-a of the New York State Social Welfare Law, tenants who are welfare recipients (as was the case with about 25% of the residents of the MFY-selected projects) may receive up to \$750 from the Department of Social Services with which to purchase a cooperative interest in an apartment.

⁴ Under a recent amendment to its Administrative Code, the City may commence foreclosure action against any property except a one- or two-family residence, after only one year of delinquency in payment of real estate taxes. Even before the effective date of the new law, the city held over 6,000 parcels of real estate, including residential properties in which over 20,000 persons were living.

⁵ A recent survey of low-income tenant-owned and managed cooperatives in New York City showed maintenance and operating costs to be considerably less (20-30%) than costs for similar well-managed buildings in private ownership.

outside contractors to do the rehabilitation work, the existing or prospective tenants contribute all or part of the required labor. This contributed labor may also substitute for any cash equity payment which would otherwise be required. Buildings have been rehabilitated by this process in Harlem, the Lower East Side, Manhattan Valley and the South Bronx.

Another method of reducing costs (and thereby the resulting rents or carrying charges) has been through the use of federal Comprehensive Employment and Training Act (CETA) and Law Enforcement Assistance Act (LEAA) funds to create work experience job training programs for unemployed community residents who obtain building construction, rehabilitation and maintenance skills while renovating buildings for tenant cooperators to own and live in. As an added incentive, these job trainees are given the opportunity to acquire apartments, as cooperative owners, in the building they renovate, by contributing extra "sweat equity" labor. These programs, by paying for essentially all of the labor costs, permit us to produce totally renovated apartments in vacant, vandalized structures at costs that low-income tenant-cooperators can readily afford without further subsidy. Currently, the Association of Neighborhood Housing Developers, Inc., in cooperation with five separate community-based housing groups, is rehabilitating eleven buildings containing 127 dwelling units under CETA and LEAA-funded programs. A total of \$2.3 million of CETA funds, \$375,000 of LEAA funds and about \$1.4 million of city loan monies are committed to these projects and over 100 unemployed and unskilled community residents are receiving work experience job training. While some of the sites are in the hardest hit inner-city neighborhoods, others are in neighborhoods which are coming under pressure from returning higher-income people.

As a direct result of these efforts, the federal Department of Housing and Urban Development has recently announced a commitment of up to \$3 million of Section 312 funds to a demonstration urban homesteading project. This will involve the rehabilitation of 250-300 units in vacant, city-owned buildings in two neighborhoods. Here, too, the direct rehabilitation loan funds will be matched with up to \$2 million of CETA funds. This program is expected to commence before the end of the current calendar year.

As has already been mentioned, city-owned properties, acquired through tax foreclosure actions, are a prime source of housing stock in virtually every low- and moderate-income neighborhood in New York City. Many of these buildings are still occupied and a large number are in fairly respectable condition. Where only moderate repairs and upgrading is required, community groups are working with tenants to establish their own management capability and to acquire these buildings, in "as is" condition from the city. The needed repairs will be accomplished over time and will be financed out of the building's rent roll.

Where more extensive in-occupancy repairs are needed, city-owned occupied buildings are being placed under the management of community groups pursuant to contracts entered in with the city. The contracts provide funds for the managing groups to hire handymen and repair specialists and to purchase necessary materials and supplies. Up to \$5-7,000 per dwelling unit can be expended over a period of approximately two years. At the end of that period, the buildings are acquired either by the tenants, as cooperators, or by non-profit entities set up by the community groups to operate them on a non-profit rental basis.

At the present time, some 25 buildings are slated for "as is" sales and another 40-odd are being managed by ten different community non-profit housing groups. The city proposes to expand the latter program to include 16 to 20 community groups managing a total of 2500-3000 dwelling units (about 150-200 buildings) within the next twelve months.

Thus far, we have been describing programs for effecting ownership change and renovation (from moderate to total gut rehabilitation) of multi-family buildings. This is, of course, the predominant type of housing in which low-income New Yorkers reside. We have not neglected our relatively small but in absolute numbers very large stock of one-to-four family homes. These are found in several lower-income neighborhoods, especially in Brooklyn, such as Sunset Park, East New York, Bushwick, Crown Heights, South Brooklyn, Williamsburg and Bedford-Stuyvesant. Quite a few have come into city-ownership through tax foreclosure; over 3,000 are in the federal government's hands as the result of foreclosure of FHA-insured mortgages.

In Sunset Park, a non-profit community group has, over the past four years, managed to acquire, rehabilitate and re-sell to moderate-income homeowners, some 25 one- and two-family previously abandoned homes. This group, the Sunset Park Redevelopment Committee, Inc., worked with a relatively modest foundation grant with which it established a revolving fund to acquire and rehabilitate the properties and with a mortgage loan pool whose establishment it negotiated with several local savings institutions.

In Williamsburg, Los Sures (another non-profit community housing group) has begun to renovate brownstone houses with the aid of direct loans from a local bank and by using a CETA-funded group of workers with which it has established a small construction company.

Another group in Harlem, the Harlem Redevelopment Corporation, is using Section 312 loans and CETA workers to renovate a group of brownstones on West 136th Street.

More recently and after much travail, the City of New York has established what it calls the Small Home Improvement Program (SHIP). This has just gotten under way in East New York and will soon begin in Sunset Park. Working with a local community group in each area, the City rehabilitates small (1-4 family) homes which it either already owns or acquires from HUD. These are then resold to lower-income community residents who obtain FHA-insured mortgages. The community group helps to identify suitable houses for the program, participates with the city in planning and designing the rehabilitation work, locates qualified purchasers and provides counseling and assistance to the new homeowners and their tenants.

These are some of the techniques which the Association of Neighborhood Housing Developers, Inc. and its member and affiliated community organizations have developed to provide and assist low- and moderate-income residents to obtain ownership or permanent residency of decent housing in their own communities. While these programs are not limited to neighborhoods to which higher income persons are returning, they are susceptible to utilization in virtually all of those neighborhoods—indeed they are being employed in several of them.

As has been suggested, most of these programs are today only being employed on a small scale—although in the aggregate they involve a goodly number of buildings and dwelling units. Were they to be expanded and made available in all low-income neighborhoods, they could provide a stock of permanent homes for present residents, who could live, decently and respectfully alongside wealthier neighbors who may choose to relocate in these communities.

What is needed to make these programs work with greater efficiency and to produce larger volumes of housing, is a six-fold government commitment:

First, a special pool of funds should be established to assist, by means of low-interest loans and, where necessary, grants, the acquisition and improvement of existing housing by and for low-income residents of neighborhoods where pressures on the housing stock are present or imminent by reason of the actual or expected immigration of higher-income persons. Today, virtually the sole source of funds for acquisition and rehabilitation is from Community Development Block Grants. For these, community groups must compete with a host of other supplicants—including city government agencies and departments. What is allocated is, if anything, woefully insufficient. Perhaps Congress might consider a special set-aside of Community Development or other funds, for the express purpose of protecting low-income residents' ability to continue living in the neighborhoods with which these hearings are specially concerned.

Second, special set-asides of Section 312 rehabilitation loan funds and Section 8 housing assistance allowance subsidies (perhaps a separate category of the latter should be established to encourage acquisition by residents and non-profit community groups and moderate level rehabilitation) should be established for these neighborhoods of special concern.

Third, cities should be encouraged to use (or the federal government might directly establish CETA And LEAA) programs to utilize unemployed residents in the rehabilitation of housing for low-income persons, thereby reducing or eliminating entirely the need for further subsidies. Limited exceptions to the Davis-Bacon Act need to be enacted to permit the utilization of such workers in projects which will also be assisted by Community Development or Section 312 loans or grants.

Fourth, the federal government, either by adding as an eligible Community Development Activity, or by separate appropriation, should provide funds on a revolving long-term loan or grant basis, to local non-profit community housing groups to permit them to acquire and warehouse vacant or under-occupied residential buildings in neighborhoods where in-migration of higher-income groups is likely to occur. These groups could thus acquire properties before the pressure of speculation and rising prices put these properties out of reach of lower-income residents. The properties could also be sealed and maintained by the local groups until funds became available for their renovation and re-use.

Fifth, the Federal Housing Administration should be directed to insure mortgage loans on properties (especially 1 to 4 family structures) which are suitable for renovation and occupancy by lower-income families in neighborhoods where values are likely to rise in the future as higher-income families enter the housing market.

Finally, non-profit community-based housing groups should be made eligible for government funding to cover their direct overhead and administrative expenses in planning and implementing projects to provide individually or co-operatively owned or non-profit rental housing, by acquisition and renovation of existing facilities for low- and moderate-income residents of these neighborhoods. In this connection, I am pleased to note that a bill to provide funding for community-based housing organizations, albeit on a limited basis and with a modest appropriation, may well be enacted by the current session of the New York State legislature. The United States Congress should follow this lead and provide assistance to the organizations which are doing so much with so little to preserve their neighborhoods and to make it possible for less affluent residents to gain security of tenure in these communities.

If, by these measures, we assure the continued residence of those current occupants of lower incomes who want to remain in their present neighborhoods, we can without fear or undue favor, encourage those citizens of greater means and mobility to come back to the inner city. We might then not only hope, but reasonably expect, that the American Dream of people of different economic levels as well as of different ethnic and racial origins coming together to live in peace and harmony in our great urban neighborhoods may become a reality.

The CHAIRMAN. Thank you, Mr. Schur, for your interesting statement.

Ms. McCurley.

STATEMENT OF RITA McCURLEY, HUMAN PRESERVATION, BALTIMORE, MD.

Ms. McCURLEY. Senator Proxmire, my name is Rita McCurley and I live in the southwest section of Baltimore—

The CHAIRMAN. Pull the microphone closer—I think you have the wrong mike.

Ms. McCURLEY. I am from southwest Baltimore. I live in an area referred to as the human resources preservation area. We are the people who have been discussed here today; we are the people that have been suppressed.

We are really the grass roots, and the majority of us have been in this area about 20 years. The education level goes from the fourth grade to college. Most of us have an eighth-grade education. We have worked, all our people. Most of the people are renters. I am a renter myself.

We were aware of historical preservation vaguely and what it meant. We knew there was a particular area in our community that got preferential treatment, better services, better police protection. But we learned to live with this.

We found in December that they were interested in expanding their area, to be tripled in size, so we began to ask: Why? And what does this mean to us? We attended one meeting. We didn't even know what questions to ask. We were really unsophisticated.

We heard about this and we feel the most valuable contribution we could make was to come here and share with you our good feelings of how we felt about the things we saw in our neighborhood and how we attempted to learn more about it, and to educate ourselves and how we felt you could help us.

So we began to ask questions. We met with a lot of resistance, but we kept at it. We went to our census tracts and we found a majority of the people in this community, 50 percent, were renters. The median income was \$6,000. We were also aware of the fact in this particular area, the price of houses has escalated. There is no way we could own a home in this area.

So we were becoming a little more educated concerning this. We got together. We went to what is called the Lusk's Directory. This is like the bible for real estate people in Baltimore. We studied this. We decided to select a four-block area and see what was going on in that area.

We became aware of the fact there was a lot of transactions going on and that houses were being resold. They were being resold for much more than they had been purchased for. So I am really naive. I thought a speculator was just—I didn't know there was a purpose or strategy behind this. But we were determined to learn.

As we went throughout, we found there were particular families buying up quite a bit of property in that area and reselling it. We said, We have been in the dark so long. We went out and we sat on the steps with neighbors, and we said: Do you know what this means? Let's talk about it.

We developed this pamphlet, which has met with much criticism because we use a concrete example, use names. And we were called everything from troublemakers to Commies, and the whole bit.

What we really were, were people trying to say—

The CHAIRMAN. Will you give us a copy of the pamphlet for the record?

Ms. McCURLEY. Yes.

We didn't understand what it was. We heard about the tax reform act, so we called the Internal Revenue Service. We said, what does it mean? They explained how it was only important to commercial renters.

Fortunately, the Evening Sun came out with this little piece, which I also have copies of. It's kind of like a speculator's guidebook; where to go, where to hit, what to do. It specifically mentioned historical areas and the tax break for them.

We said, Hey boy, this is what this is all about. So we proceeded to do more study, and we badgered people. We went to ACD and asked all sorts of questions. We were about as welcome as a fly in milk, but we went and we put up with this abuse. And we came up with some questions for our people because it was really important to us that our people know.

We were hard put to think, maybe 5 or 10 years from now we would find there was no place for us here. We didn't want to be uprooted and thrown out. So we are still in the process of being educated.

Our primary purpose was to stop a bill in our own State—698—which would triple this expansion area. That was our primary purpose. But during the course of our struggle, we thought we would share this with others; tell them what we felt, what we learned, and what we felt people could do for us.

We rush in where a lot of people don't rush in, so we brought you some of what we feel is good advice, based on what we have found out.

Now, if you don't mind, I will read our statement now. I just want you to know where we were coming from.

The CHAIRMAN. You made a good presentation. We will put the statement in the record and proceed to questions. Because I think you made a good statement and stated the case very well already. Is that all right?

Ms. McCURLEY. Fine. Thank you.

The CHAIRMAN. I will have questions for you a little later.

Mr. Smith, how much of a turnover in Adams Morgan involved purchases by speculators and how much involved purchases by owner/occupants?

Mr. SMITH. In my opinion, you can tell when a house is being sold to an individual owner by looking at the price at which the house sold.

In other words, the speculators very rarely buy at a price as high as \$20,000.

The CHAIRMAN. Prices higher than what?

Mr. SMITH. Higher than \$20,000 per house. They very rarely buy a house at a price higher than \$20,000.

The CHAIRMAN. In that particular neighborhood?

Mr. SMITH. I haven't looked at this in other parts of the city as well as I have looked at in Adams Morgan.

There was another study done by a woman that works for City Council—

The CHAIRMAN. Do you have any definite documentation to indicate that speculators rather than homeowners—that is, based on how long they held it, whether they actually lived in the house and so forth?

Mr. SMITH. What we do, we look at it. We look at multiple sales; how quick a house is turned over from when it's bought and when there has been any repairs.

The CHAIRMAN. If the speculators paid \$20,000 or less, in view of the average price, I take it most of the purchases were by owner/occupants?

Mr. SMITH. No.

The CHAIRMAN. You gave an average price of over \$50,000?

Mr. SMITH. That was in one of the census tracts. The other census tract is a bit lower than that. If you take Seaton Street, if the person made—they bought 26 properties on Seaton Street for the average price of \$20,250. An individual hasn't bought a house, a place to live, at that price in the last 7 or 8 years. But there are sales

taking place in the \$11,000 to \$15,000 range from one speculator to another right now.

The CHAIRMAN. Does the District government have any program for acquiring any units in Adams Morgan for use by low- and moderate-income families?

Mr. SMITH. There are no special programs. The city has no programs like that. As a matter of fact, in order for the city to be able to assist Seaton Street, it had to declare Seaton Street an area what is now called a community development area. It was the only one-block community development area in the country.

It was provided so the city could provide the money for Seaton Street. The city had no authority, no money—that is what they told us—that could be used to acquire the property with. They left the tenants on their own to acquire property.

Fortunately, through MO, and because we were hassling Prudential at that time, we could arrange money for mortgages. They couldn't even rehab them until we could figure out how to buy them.

[The complete statement of Rita McCurley follows:]

STATEMENT OF COALITION FOR HUMAN PRESERVATION

THE FOUNDATION OF THE COALITION

The Coalition was founded by the Fulton Avenue Survival Center and Viva House, a Catholic Worker House. Since its inception in April, 1977, the Coalition has grown to about 40 members who have been meeting steadily for the past 3 months. The members are all residents of the community directly involved and the Coalition is very definitely a "grass roots" organization. The Coalition is from the Southwest section of Baltimore City in an area referred to as the Union Square area.

THE SPECIFIC REASON FOR FORMING THE COALITION

The Coalition was formed specifically to fight against a local "historical preservation" bill, City Council Bill 698. This Bill calls for an expansion of the Union Square Historical Preservation area. In 1970, a small portion of our neighborhood was designated "historical preservation"; the new bill calls for a tripling of the existing preservation area.

WHY THE COALITION IS FIGHTING ANY MORE HISTORICAL PRESERVATION FOR OUR AREA

(1) *Section 2124 of the 1976 Tax Reform Act . . .* This portion of the Tax Reform Act is the speculator's dream and the poor person's nightmare. It provides an incentive not to preserve buildings and architecture, but to make money. Lots of money. Section 2124 allows the speculator/investor to restore property in a historical preservation area, and then hide behind the tax shelter provided and regain the investment through accelerated depreciation. It only benefits those who are into preservation as a business venture. So, what happens is a rather simple scenario. The speculator buys a property (quite often rather cheaply), he/she then renovates it, putting at least the required \$5,000 into the property for "restoration," and then rents or sells the property. Section 2124 allows the speculator to regain his/her investment and provides the speculator with the opportunity to raise the rents and/or inflate the selling price of the house. The Coalition feels that Section 2124 should be repealed completely, not just amended to help individual homeowners. We feel that Congress should study the whole concept "historical preservation" first, then propose legislation that would truly help to preserve history and serve all the people of our society, those who own property as well as those who rent.

(2) We are fighting an expansion of the preservation boundaries in our area because of what we see:

(a) *Baltimore City has a 2 percent vacancy rate.* In the already existing preservation area we have seen families displaced from their homes as the

rents go beyond their grasp. With the 2 percent vacancy rate we have a "landlord" market in Baltimore, and the landlord can set outlandish rates knowing that low and fixed income people have limited housing options.

(b) In our area, the proposed expansion area, over 60 percent of the residents rent and the average family income is below \$6,000 (according to the 1970 census.) Things have not changed significantly since 1970 when you consider inflation and unemployment.

(c) We did a study of what has and is happening in the area already declared "historical and published part of our findings in a pamphlet we distributed to over 2,000 families in the proposed expansion area. For our study we used the *Baltimore Real Estate Tax Assessments*, *Lusk's Baltimore Real Estate Directory* and the public recording of Deeds and Mortgages. We looked up the buying and selling activities. We found the following. This is merely a sample (all of the properties are in the existing area designated historical): 1500 Hollins Street—sold in 1977 for \$46,000; 1626 Hollins Street—purchased for \$5,500 in 1976, sold in 1977 for \$15,000 in 1977; 1504 Hollins Street and 1533 W. Lombard Street—purchased together for \$4,180 in 1966. Then 1504 was sold for \$30,000 in 1974 and 1533 W. Lombard Street was sold for \$22,000 in 1973.

The above mentioned properties are cited as an example of what preservation/speculation has done to property in our area. Because of the tremendous inflation of property values the current residents of our area are not able to meet the new rents or even consider the possibility of purchasing a house. We feel that the concept historical preservation is more concerned with greed than with history.

WHY WE ASKED TO TESTIFY AT THIS HEARING

(1) We want Congress to reconsider Section 2124 of the 1976 Tax Reform Act. We feel that this section of the Act works against the residents of our area. Most of the people in our area rent their homes or apartments and the current law is only of benefit to those who own property as part of a business venture. Even if the section was amended to include individual resident homeowners, most of the residents would not benefit because they rent. Also, it is important to consider the effects of historical preservation on people who have low and fixed incomes.

(2) We want Congress to investigate the effects of the so-called restoration movements in our cities to see how poor people are effected. The cities claim that they are dying and they need to increase their tax base. As the City bureaucracies envision things it is great to have middle class tax providers move back into the city, but they do not consider the plight of poor people who are already living in the cities. We ask Congress to begin a public investigation into all Restoration/Preservation movements and examine the effects on poor people.

There is so much more we could say. We could list more and more speculative examples. We could bring in families who have been displaced. We could continue to point out the hidden "bad points" of historical preservation, at least the way the law is phrased today. But I do not want to take up more than my allotted time. Thank you for listening to me. The Coalition would enjoy taking any member of Congress on a tour through our area and point out the damage. Please feel most welcome to contact us.

The CHAIRMAN. Mr. Schur, what part, if any, has more stringent housing code enforcement played in the moving of lower income people out of neighborhoods, like say, in Brooklyn?

Mr. SCHUR. Very little. We really have not had a code enforcement program in New York City in my recollection that you could really call stringent. Occasionally, there have been some more efforts than others, but in general, it has been a rather hit-or-miss process. We did have two or three federally assisted code enforcement programs in the late 1960's, and the early 1970's. Those were in areas that were still, at that time, primarily on the downgrade.

We didn't see any acceleration or deceleration of trends during that period.

The CHAIRMAN. In your equity projects, which you mentioned, have you solved the problem of working out a cooperative relationship, to get a Davis-Bacon waiver?

Mr. SCHUR. No. We have not. We pretty well ignored the trade unions and they have ignored us, because so far we have been pretty low key and we haven't really developed more than, say, a few hundred projects altogether, citywide.

We think as this thing grows we will have to meet that whole question head on.

The CHAIRMAN. What do you pay these people; what is the hourly compensation roughly that they get?

Mr. SCHUR. We have been paying most of the people that work, some people volunteer completely.

The CHAIRMAN. Some people work for nothing?

Mr. SCHUR. That is right. They want to get a home.

The CHAIRMAN. Of course, the sweat equity part of it means they are developing a right to secure their own housing.

Mr. SCHUR. That is correct. Otherwise, we pay at rates of \$2.85 to \$3.50 an hour.

The CHAIRMAN. That is in addition to the housing advantage they get?

Mr. SCHUR. Yes. To get the housing advantage, they also contribute some additional work. The typical program, usually it is worked out by the local community organization and the tenants working together to develop a particular project, a typical situation would be that the local people will be hired at these wages, and then in order to preserve their right to get a priority apartment at no further down payment, they will contribute an additional 5 to 10 hours' work free per week.

Sometimes that is used mostly, acting as security guards during the evening or weekends, during—

The CHAIRMAN. Do they actually develop a skill that is useful or is it so casual and so limited that they don't develop a skill or skills that would be necessary for them to then go on and get employment in construction work?

Mr. SCHUR. These people are certainly, after a year or so, that it takes, usually to rehabilitate an apartment building, you get some of them completely unskilled, most of them are, many of them have never had a job worthy of the name before, but what we have found is, over this period of time, these people will develop decent work habits; they will begin to get some familiarity with working alongside of and with other people; they will also get some familiarity with the use of common tools.

At this point, they are probably ready to go into an apprentice program. Prior to that, they were basically unemployable.

The CHAIRMAN. Are some of them going into apprentice programs?

Mr. SCHUR. Yes. We have been able to get a few of the people in some cases into apprentice programs. In other cases, they have been hired by small contractors or subcontractors who continue to sort of do their own on-the-job training. The results are fairly encouraging.

The CHAIRMAN. Under present law, what degree of HUD involvement is necessary to figure Davis-Bacon requirements?

Mr. SCHUR. The only HUD involvement except for this forthcoming demonstration of 312 urban homesteading programs, the only involvement they have had is through community development. The city of New York had set up a couple of programs which I mentioned, such as the community management program, and there have been a few direct loans of CD funds to these rehabilitation projects.

However, very often, in some instances, some city people find they are not sure whether they even have the right to do that under the Community Development Act regulations. It is somewhat of a borderline situation.

The CHAIRMAN. Supposing they get a rehabilitation loan, would that trigger Davis-Bacon if they get a 312 loan, Federal money involved to rehabilitate a home, then you have to pay Davis-Bacon wages?

Mr. SCHUR. Yes. You would. HUD has given an exemption for this particular program.

The CHAIRMAN. Mrs. McCurley, that was a very moving statement that you made for the record. I can understand your very emphatic outrage at what has happened. You argue that the Historic Preservation Bill combined, with a tax shelter, encourages people to make a lot of money, but they don't provide the kind of protection for homeowners and renters that you think is desirable.

Would you favor historic preservation benefits if they were available to homeowners and renters, rather than just landlords?

Ms. McCURLEY. It is my understanding of what has been proposed that the renovation should be at least \$5,000. Even the homeowners in our area, I mean, that is like a million.

Besides that, 60 percent of our people are renters. What we are looking for is a chance to become educated. We have appealed—

The CHAIRMAN. I am not sure I understand.

Ms. McCURLEY. I don't think it would touch that money. I don't have the figures. I know we have 60 percent renters and quite a few absentee landlords.

The CHAIRMAN. If you could redesign the tax laws to provide for a tax credit, so you don't have to worry about having a big income to get a benefit, everybody has a couple of thousand dollars of income, to be able to make some deduction.

I suppose if you are in a position of not paying income tax at all, until they change the law, and they may do that, with a negative income tax, this coming year, but if you pay just \$300 or \$300 in taxes, get that refunded under tax credit, if that could be reworked, and that benefit made available to homeowners and renters in that form. The way the present laws work, they do benefit primarily people with very high incomes, I mean, very high incomes, \$50,000, \$100,000, then they really begin to get a lot of benefit.

Of course, you are not talking about people with incomes like that, I am sure. Most people don't have incomes like that. As I say, the tax credit can be designed to benefit people with very modest incomes. Well, I want to thank all of you folks for your testimony. You made a very helpful constructive contribution. Thank you.

[Whereupon, at 12:25 p.m., the committee was adjourned to reconvene the following day, Friday, July 8, 1977.]

NEIGHBORHOOD DIVERSITY

FRIDAY, JULY 8, 1977

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, D.C.

The committee met at 11 a.m. in room 5302 of the Dirksen Senate Office Building; Senator William Proxmire (chairman of the committee) presiding.

The CHAIRMAN. The Committee will come to order. These are the Committee on Banking, Housing, and Urban Affairs hearings on neighborhood diversity.

Our first witnesses are in a panel consisting of Mr. William Whiteside, director of the Urban Reinvestment Task Force, Mr. Carl Westmoreland, director, Neighborhood Housing Services, Cincinnati, Mr. Thomas Adams, director, Neighborhood Housing Services, Baltimore.

Gentlemen, we are delighted to have you this morning. We had very interesting hearings yesterday. We are anxious to do all we can to help rebuild the cities, and we were encouraged by reports that people are coming back into the cities, and the cities are being revived.

At the same time, we want to make sure that that revival does not come at the expense of the people of low and moderate income. Housing programs in the past have been characterized by a very serious adverse effect on the people of low and moderate income.

We noticed that with urban renewal and with the highway program. We want to be sure that we can get something out of it, and certainly revive the cities. We want to do it in a way that will permit their citizens to participate in the revival.

Mr. Whiteside, would you go right ahead, sir.

STATEMENTS OF WILLIAM A. WHITESIDE, DIRECTOR, URBAN RE-INVESTMENT TASK FORCE; CARL WESTMORELAND, DIRECTOR, NEIGHBORHOOD HOUSING SERVICES, CINCINNATI; THOMAS ADAMS, NEIGHBORHOOD HOUSING SERVICES, BALTIMORE, MD.

Mr. WHITESIDE. Thank you, Mr. Chairman.

I am here in my role as director of the Office of Neighborhood Reinvestment of the Federal Home Loan Banks, and staff director of the task force.

The task force members have not had an opportunity to review my testimony, so it should be taken as a presentation of staff views. How-

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ever, the testimony has been reviewed and approved by the Federal Home Loan Bank Board.

Testifying with me are two highly qualified, experienced neighborhood housing services directors, Carl Westmoreland from Cincinnati and Thomas Adams from Baltimore. They will get into the kind of detail that will be very helpful to you in understanding how the neighborhood services can relate to the problems your committee is addressing. I will talk somewhat in more general terms.

The CHAIRMAN. May I say, Mr. Whiteside, you have a very substantial statement. We have seven witnesses this morning. We had a late start, as you know, so if you can abbreviate your statement in any way, we would appreciate it, and the statement with all its attachments will be printed in full in the record.

Mr. WHITESIDE. Thank you. I should have mentioned I intended to do that.

I think we are fortunate to be ahead of the problem to a very large degree. The problem is real particularly to those who are experiencing it, but it is not apparent on a large scale yet, which gives us the real luxury, of dealing with public policy considerations, with time to work out solutions.

The perspective I bring to this is that of having worked in 50 cities around the country in developing neighborhood housing services programs, having a staff that are in constant touch with lenders, with neighborhood residents and with city officials in these cities, and having a sense of the enormous diversity of this country.

My recommendations will be in the direction of urging primarily local, rather than Federal solutions, urging the achievement of macro results through stimulating a multitude of microactions.

I feel that the need to tailor programs to the individuality of neighborhoods really dictates this kind of approach. There is a two-sided coin as you mentioned, Mr. Chairman, in neighborhood reinvestment.

That is, as you achieve your results, what everyone wants, improving the quality of houses, improving the quality of neighborhood amenities, making neighborhoods better places to live. There is an increased demand for the neighborhood, and the people least able to afford it can be hurt by this activity.

The tough question facing policymakers is how not to slow down and step back from the progress we are making in improving the quality of life in our cities, but how at the same time to cushion negative impacts on residents, both those which result from the kind of planned intervention represented by Neighborhood Housing Services, and those which result from spontaneous economic forces.

Experience with Neighborhood Housing Services has shown us the benefit to be brought to current residents by careful counseling, by assistance in getting loan funds, by assistance in selecting contractors and having the work monitored, by the kind of supportive mechanism that an organized community group can bring to the neighborhood.

And we feel this offers a valuable approach to providing stability in neighborhood improvement. Other special mechanisms are required to deal with the negative effects on residents who are priced out of the neighborhood, of neighborhoods which face racial and economic re-

segregation, of sellers who are denied the benefits of the increased value of their property, by speculators who add nothing to the value, and the hardship on tenants who are displaced. We are looking very hard in our neighborhood preservation projects for some tools to deal with these problems.

Troublesome dynamics may exist in Neighborhood Housing Services neighborhoods, but they are probably a bit under the surface. They would include the upward pressure on housing costs from taxes, as values go up, the upward pressure of utilities costs and the impact on rents as landlords improve their housing properties. These well need to be dealt with as time goes on, and these problems begin to surface in the N.H.S. neighborhoods.

On the whole, we are working in blue-collar neighborhoods which have not become fashionable. And we have not seen the kind of run-away costs in these neighborhoods that we are seeing in other places, particularly in Washington, D.C., where escalating costs have had a major impact.

The N.H.S. neighborhood selection criteria, I think, are responsible for this not been a major problem. Looking for a neighborhood of primarily single family homes, looking for owner occupancy of 50 percent or more or the structures means that problems for renters are minimized.

We are consciously experimenting on moving into neighborhoods that have historic structures, that have the potentiation for this kind of pressure, to see what kind of protective mechanism we can develop.

In Little Rock, Ark., we have developed a model for this which I believe, will be very helpful in the future. The model involves protection for the renters, for the people who live there, assistance for homeowners who have historic facades but don't really have the wherewithal or the desire to bring them to the maximum possible desirable condition from a historic point of view.

They are attempting to set up some special funding to provide assistance to those moderate income homeowners. They are also providing section 8—existing housing—assistance for renters who face increased rents in the unit they occupy, because of the improvement of that unit.

We have been impressed enough by that as a model that we are in discussion with officials at HUD—to conduct an experiment in a number of Neighborhood Housing Services programs around the country to see if they can demonstrate a new and useful method of using section 8 programs to assist the tenants to remain in the neighborhood and in the unit they are presently occupying as the units and the neighborhoods are improved.

In December, as we were announcing the Neighborhood Preservation Projects to be selected for the coming year, we included one which deals with this problem. We requested proposals, demonstrating mechanisms which would provide for equitable treatment for current residents of neighborhoods experiencing rapidly increasing housing costs.

This received national distribution. We have received seven proposals on this topic. Among the seven, we are sure there will be one and perhaps more that will show enough promise that we will be able to support it.

The strategies included in the response to this proposal, I think, are worth mentioning. They included: counseling of homeowners as to the long-term potential of the neighborhood, reducing utility costs, low interest municipal loans, rehabilitation assistance for homeowners, targeting of neighborhood marketing efforts on potential and middle and moderate income buyers, reducing absentee ownership by promoting owner occupancy, acquisition of homesteadable property by local governments through tax forgiveness, tax incentives to encourage investor-owners to rehabilitate, rent limitation agreements in connection with the low interest loans to investor-owners, municipal programs of rent supplement for low-income residents, rehabilitated housing and alternative communal or cooperative housing for elderly residents within their own neighborhood.

Our staff will be making field visits to the cities which have submitted the applications that are particularly promising, and we are hopeful that out of them we will come up with some model approaches that will be helpful for the future.

And we are hopeful, also, that we discover others in the future, because I think we are really at the opening gun in this battle. And we are hopeful we will find a number of useful approaches.

The recommendations that I have made in my written statement, you will note, all involve local action. None involves new Federal programs or legislation.

I would think the appropriate Federal role in this would be to encourage the use of community development block grants for this purpose, and to make available knowledge about mechanisms to deal with these problems on a national basis to the many cities throughout the country that will be facing them as time goes on.

The recommendations, briefly, are first, to make neighborhood housing services or NHS-type homeowner services available to current residents of neighborhoods subject to escalating housing costs; second, to provide special property tax treatment for long-term homeowners; third, to provide informational programs for homeowners to insure that they recognize the potential value of their property before they enter into a sale, and for tenants, as to alternative housing resources or resources for assistance; four, the development of local relocation assistance programs for tenants dislocated by private action.

It strikes me that this is perhaps the key recommendation of all. I feel the concept of public policy concerning itself with the impact on tenants of the action of private landlords will be a new step for most cities around the country. It is a conceptual step that I believe needs to be made to cushion the impact of this kind of change.

Fifth, provision of section 8 allocations or locally devised rental subsidy payments, which may be at a slightly lesser level of assistance, or might apply to people at somewhat higher levels of income, to all of the eligible renters desiring to stay in the neighborhood.

Finally, utilizing community development resources to rehabilitate or build new housing for relocation purposes in or close to the neighborhood, again, to minimize the dislocation impact.

That concludes my statement.

[Complete presentation of Mr. Whiteside follows:]

STATEMENT OF

WM. A. WHITESIDE, DIRECTOR

OFFICE OF NEIGHBORHOOD REINVESTMENT, FEDERAL HOME LOAN BANKS,
AND STAFF DIRECTOR, URBAN REINVESTMENT TASK FORCE

My name is Wm. A. Whiteside. I am Director of the Office of Neighborhood Reinvestment of the Federal Home Loan Banks and Staff Director of the Urban Reinvestment Task Force. The Urban Reinvestment Task Force is made up of the Chairman of the Federal Home Loan Bank Board, a Governor of the Federal Reserve System, the Chairman of the Federal Deposit Insurance Corporation, the Comptroller of the Currency and the Secretary of the U.S. Department of Housing and Urban Development. I should point out that there has been no time to clear this testimony with the Task Force members and that my remarks should be considered a presentation of staff views.

Testifying with me here today are Thomas Adams, Executive Director of Neighborhood Housing Services of Baltimore and Carl Westmoreland, Jr., Executive Director of Neighborhood Housing Services of Cincinnati. They will cover the specifics of their programs' operations and share their experience with the Committee in regard to the potential dislocation of poor people and minorities in their neighborhoods, and methods they have developed to prevent the dislocation. I will comment and attempt to generalize on our experience to date in the other programs.

I welcome this opportunity to testify before you at this hearing, and share your concern that the reversing of decline in our urban neighborhoods -- while critically necessary for the health of our cities and our nation -- brings with it problems and new public policy issues. I congratulate you on your early perception for the need for this review. I think, for once, we are ahead of a problem, and have time to work out considered solutions before the trickle of renewed interest in the cities becomes a torrent, and before there is any large scale resegregation of urban neighborhoods, racially or economically.

The perspective I bring to this hearing is that of practical experience in neighborhoods in over 50 American cities with Neighborhood Housing Services (NHS) programs and Neighborhood Preservation Projects (NPP). (See Appendix A for a description of these programs.)

Task Force staff members have worked closely with local governments, neighborhood groups and private lenders in these cities in developing and monitoring these programs and we have monitored the stabilizing factors NHS programs can bring to neighborhoods undergoing reinvestment. We have also been giving consideration to unmet needs of neighborhoods, yet to be faced as public policy issues.

Let me further express a personal bias, and a basic underlying direction of Task Force programs -- namely a strong preference for local and private actions, with minimum reliance on large Federal programs; rather relying on the Federal input to be that of stimulator, facilitator, and to the extent possible, of funder. My preference for this approach is based upon personal experience with the enormous regional diversity of this nation, as well as the further diversity of neighborhoods within regions and individual cities. This diversity requires the utmost in tailoring programs to each neighborhood microcosm. Our "macro" achievements will come through stimulating a multitude of "micro" actions. I am further convinced of the necessity for strong private sector participation in these local actions simply because of the magnitude of the need -- far beyond the present fiscal capacity of government at any level.

I see a multi-faceted problem inherent in the revitalization of neighborhoods, whether it is revitalization brought about by conscious public and public/private intervention or by spontaneous market forces.

Renewed neighborhood viability and increased demand will bring about an upward pressure on home prices and rents. The positive effect of this on the tax base of our cities is undeniable. However, there can be an undesirable side effect on the current residents, as both renters and owners may find themselves priced out of their old neighborhood.

The primary thrust of the work of the Urban Reinvestment Task Force is the improvement of the quality of life in neighborhoods. As reinvestment proceeds, and the quality of the neighborhood - its public amenities, its homes and its social fabric - improves, property values can be expected to increase, and the neighborhood will become a more attractive real estate market. It is certainly desirable that the quality of life in neighborhoods which were previously declining should improve, that property values should increase and that residents of higher economic levels should be attracted to them.

On the other hand, it is undesirable that neighborhoods should become racially segregated, or that current homeowners desiring to remain in their homes should be unable to do so. Further, in the case of homeowners desiring to sell, it is undesirable that they should be denied the benefits of increased value by speculators who contribute little to the improvement of the neighborhood. It also seems to me to be undesirable that tenants displaced by the decisions of private landlords should face undue hardship.

As intervention to bring about reinvestment in neighborhoods, as well as strengthening economic forces, generate desired improvements in neighborhoods, mitigating any undesirable side effects becomes a public policy concern. Protective mechanisms are needed to cushion the impact of side effects on current residents, particularly in neighborhoods experiencing rapidly escalating housing costs.

The Task Force's main experience in this area has been in the establishment of Neighborhood Housing Services (NHS) programs. These programs provide counselling, loan services and construction monitoring services for residents of neighborhoods in which all of the homes are being systematically brought up to at least minimum health and safety standards. It features improvements by local governments of service levels and public amenities; provision by local financial institutions of home improvement loans and mortgage loans, as well as financial support for the NHS and participation in its management; and strong local leadership for the program and participation in its management by organized neighborhood residents. The NHS administers a revolving loan fund to assist residents who desire a loan to improve their property but who, for reasons of income or credit, cannot borrow from a financial institution.

Thirty-three NHS programs are now in operation in 42 neighborhoods, and Task Force staff members are currently developing 20 new programs, and assisting five of the earlier programs add one or more neighborhoods.* In all, NHS programs are in operation or in development in 53 cities located in 42 states and the District of Columbia.

The most important point I can make about NHS is that it involves the current residents, and it is oriented toward preserving and improving the neighborhood for them. Further, we are dealing most often with working class neighborhoods of modest homes, and have not seen any of them become fashionable (or subject to "gentrification") as have, for example, Georgetown and Capitol Hill, with attendant run-away costs. Therefore, our experience has not included any significant degree of dislocation of the poor or of minorities.

*Two of these developmental programs are scheduled to become operational by July 31, 1977.

However, this is not to deny the existence of troublesome dynamics. Two of the most important are the pressures of increasing property taxes and of increasing utility costs on lower income residents -- particularly on those living on fixed incomes.

Generally in the NHS developmental process, participants discuss potential property tax increases and ways to attempt to prevent them. Cities which have established tax moratoria on rehabilitation-related assessment increases offer the best protection -- with five-to-ten year delays before the full impact of improvements are felt in increased assessments. In other cities, assessors have formally or informally agreed to consider rehabilitation as deferred maintenance rather than property improvement, unless rooms or other major amenities have been added. More often than not, however, no special arrangements have been possible to prevent property tax increases. Even faced with this, no resident group has decided to forego the program and retain the status quo. The desire to improve their neighborhood has outweighed concern about tax increases resulting from rehabilitation; and a general neighborhood-wide rise in values has seemed both so desirable, and so remote, that this factor in tax increases has received little attention in the NHS developmental process.

This factor has been of concern to operating NHS programs, however, as rising taxes have caused an increasing number of residents who would otherwise have been "bankable" to require the services of the Revolving Loan Fund, and growing numbers of Revolving Loan Fund loans have had to be recast to take these growing costs into account.

During this past winter, rapidly escalating utility costs have caused real suffering to residents on fixed incomes. Many Revolving Loan Fund loans have had to be recast to fit the new, reduced economic capacities of NHS borrowers.

Another dynamic of improving neighborhoods is that upward pressures on rents may result from the improvement of rental properties. While many of the tenants represented in NHS organizations have felt that modest rent increases were an acceptable cost in return for the increased livability of their homes, it seems clear that without assistance, some lower income renters may be priced out of their neighborhoods over a period of time.

Local partnerships of community representatives, lenders and representatives of local government select the NHS neighborhoods. Among the general considerations for selecting neighborhoods that the Task Force staff recommend to the local groups are that the neighborhood be predominantly single-family, and that 50% or more of the structures be owner occupied. These factors have tended to limit NHS involvement in neighborhoods where rent increases would pose a major problem.

Last year, we consciously undertook the development of an NHS program in a neighborhood with a substantial number of historically significant structures and with a higher proportion of tenants than we had undertaken previously. The developmental process included careful planning of the interface between the city's systematic housing inspection program and historical preservation work. This was necessary because of the potential of the neighborhood being placed on the National Register of Historic Places. Residents and city officials also worked out a specific plan for the provision of Section 8 "existing housing" certificates to eligible tenants who would otherwise be subject to rent increases as a result of improvements made to their homes.

Ms. Mary Lee Widener, who managed the Little Rock developmental process for the Task Force, reported to the National Trust for Historic Preservation on this effort. (A copy of Ms. Widener's speech is attached as Appendix B.) She described our goal as follows:

Our goal for the people who live in the neighborhood is to make it possible for them to participate in the improvement effort, remain in the neighborhood, and enjoy a new quality of life without undue hardship. We are particularly concerned about the displacement of elderly persons on fixed incomes who have lived in family homes all their lives, about displacement of low income owners who cannot afford to make repairs or pay increased taxes, about displacement of low income tenants who cannot afford higher rents, and about displacement of minorities because of changes in the social character of a neighborhood. It was this last consideration that led the late Whitney Young to describe the experience of many eastern cities as 'Urban Renewal means negro removal'.

The Little Rock program is just in its first months of operation, so it is not yet possible to fully assess the effectiveness of the safeguards built into the program. The outlook is encouraging, however. We are impressed with the strengths being brought to the program by the Arkansas State Historical Preservation Officer. We are also encouraged by the design of a system to use Section 8, for preventing the displacement of eligible tenants, and we have initiated discussions with the responsible officials at the Department of Housing and Urban Development which we hope will lead to a special experimental set-aside of a small number of Section 8 allocations so that other NHS programs can test this approach.

Another Task Force activity is monitoring and making small grants to Neighborhood Preservation Projects, showing promise of becoming models of new neighborhood revitalization strategies. NPP has provided an opportunity to obtain some experience relevant to the issue of dislocation. In one particular program, the Yonkers Apartment Building Rehabilitation Project, the City of Yonkers has demonstrated a very promising approach to rehabilitating buildings which have begun to lose their viability. We have scrutinized this program carefully with regard to its impact on current tenants, because one of the objectives of the program has been to increase rent levels of apartment buildings so that they can cover costs of maintenance, management and a reasonable return on capital.

The Yonkers project reports indicate that by sensitively counselling tenants who are unable to return to the apartment buildings after rehabilitation, that it has been possible to relocate them satisfactorily, usually in the same neighborhood. In those cases where substantial rehabilitation is required, the City works closely with the property owner and his tenants to insure that existing tenants are relocated to other units that have been rehabilitated. In every case, the new rents are comparable to rentals in the former building. In the case of public assistance tenants, Social Service will pay all moving costs. Low and moderate income tenants are given rent relief, prior to relocation, sufficient to cover their moving costs.

The Task Force is now in the initial stages of experimentally replicating this apartment building rehabilitation project for the first time in Hartford, Connecticut. In the neighborhood proposed for the project in Hartford, it will be necessary to adapt the Yonkers model to allow for the more modest income level of the neighborhood and use Section 8 subsidies extensively.

In 1976 we determined that in neighborhoods subject to escalating housing costs because of private market forces and, to a lesser extent in some NHS neighborhoods, new mechanisms would be needed if current residents were not to be displaced or to suffer undue hardship. Accordingly, in a December 22, 1976 announcement in the Federal Register (see Appendix C attached) we included a request for Neighborhood Preservation Project proposals demonstrating mechanisms which provide for equitable treatment for current residents of neighborhoods experiencing rapidly increasing housing costs.

Seven proposals were submitted for consideration by the Task Force as potential Neighborhood Preservation Projects. Strategies included in the proposals included the following:

- Counselling of homeowners as to the long-term potential of the neighborhood
- Reducing utility costs
- Facilitating acquisition of homes by tenants through low-interest municipal loans
- Rehabilitation assistance for homeowners
- Targeting of neighborhood marketing efforts on potential middle and moderate income buyers
- Reducing absentee ownership by promoting owner occupancy of two to four unit structures
- Acquisition of homesteadable property by local government through tax forgiveness
- Tax incentives to encourage investor-owners to rehabilitate

- Rent limitation agreements in connection with low-interest loans to investor owners
- Municipal program of rent supplements to low-income residents of rehabilitated housing
- Alternative communal or co-op housing for elderly residents within their own neighborhood

As the Task Force staff examines the more promising of these proposed projects in field visits, we expect to find one or more worthy of assisting and monitoring as potential models. We believe, however, that other models are clearly needed, and we will continue to seek replicable program strategies in this area.

RECOMMENDATIONS

As I mentioned at the outset, we are in the favorable position of developing solutions for problems which are just beginning to unfold on a national scale. My recommendations all involve local actions, and require no new Federal programs or Federal legislation. Some of the local actions, however, could well become encouraged utilization of existing or increased Community Development Block Grant allocations.

The adoption of these recommendations at the local level will assist current residents of neighborhoods which are undergoing escalating housing costs due to market forces, and can be of assistance to NHS neighborhoods in the future if they should begin to experience such escalating costs. Their implementation could also increase the feasibility of introducing NHS programs to neighborhoods subject to these problems.

1. Make NHS or NHS-type homeowner services available to current residents of neighborhoods subject to escalating housing costs.

Neighborhoods served by NHS programs have the benefit of a basic stabilizing influence which, because of their grass-roots bases, can be particularly effective in reaching homeowners with counselling and home improvement assistance.

2. Provide special property tax treatment to long-term homeowners.

Protection from rising property taxes, which are costs of remaining in the neighborhood, will help enable long-term homeowners to remain in the neighborhood as long as they wish -- selling at a time of their own choosing and reaping the benefits of their property's appreciating value.

3. Informational Programs (A) for homeowners to insure that they recognize the potential value of their property before entering into a sale, and (B) for tenants as to alternative housing resources or sources of assistance.

In discussing these problems with representatives of NHS programs in 15 cities, there was broad agreement that the lack of knowledge of opportunities was one of the most severe handicaps to current residents. A locally funded informational program with good community outreach would do much to offset residents' problems, discouraging speculation and enabling displaced tenants to find other housing opportunities with maximum range of choice.

4. Development of local relocation assistance programs for tenants dislocated by private action. Federal relocation assistance payments are triggered only by public action. Further, they are so generous as to often be considered prohibitively expensive by local governments. A new concept in relocation assistance is needed to cope with private actions which dislocate tenants. The assistance provided could be at quite a modest level, including the actual cost for the physical move and, perhaps, the amount necessary to pay advance rent and security deposits which may be required. Coupled with counselling, such a program would go a long way toward cushioning the impact of escalating housing costs on tenants unable to remain.
5. Provision of Section 8 allocations or locally devised rental subsidy payments to assist eligible renters desiring to stay in the neighborhood.

Such subsidy programs would further cushion the impact of rising housing costs on residents desiring to remain in the neighborhood.

6. Utilize community development resources to rehabilitate or build new housing for relocation purposes. A vigorous, local program to develop alternative housing resources in or near the neighborhood where displacement of current residents appears inevitable, would be an important resource. It would serve to answer concerns about resegregation and offer a choice to residents.

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APPENDIX A

URBAN REINVESTMENT TASK FORCE

Status Report, July 1977

The following Task Force Programs are in operation or in development:

	NEIGHBORHOOD HOUSING SERVICES			NEIGHBORHOOD PRESERVATION PROJECTS
	OPERATING (number of neighborhoods)	IN DEVELOPMENT	ADDITIONAL NEIGHBORHOODS	
Albuquerque, NM	1			
Atlanta, GA	1			
Aurora, IL		1		
Baltimore, MD	1		1	2
Berkeley, CA				1
Birmingham, AL	1			
Boston, MA	2			1
Bridgeport, CT	1			
Buffalo, NY	1			
Charleston, SC		1		
Charleston, WV		1		
Chicago, IL	4			1
Cincinnati, OH	1		2	
Cleveland, OH	1			1
Cleveland Hgts., OH				1
Columbus, OH		1		
Dallas, TX	1		2	
Des Moines, IA		1		
Denver, CO		1		
Detroit, MI		1		
Hartford, CT	1			1
Hoboken, NJ				1
Indianapolis, IN		1		
Inglewood, CA		1		
Ithaca, NY	1			
Jamaica, NY	1			1
Kansas City, MO	1		1	
La Habra, CA		1		
Lefrak City, NY				1
Little Rock, AR	1			
Miami, FL		1		
Minneapolis, MN	1			
Nashville, TN	1			
New Orleans, LA	1			
Newark, NJ		1		
Oak Park, IL				1

(continued)

Status Report, July 1977, cont'd.

	NEIGHBORHOOD HOUSING SERVICES			NEIGHBORHOOD PRESERVATION PROJECTS
	OPERATING (number of neighborhoods)	IN DEVELOPMENT	ADDITIONAL NEIGHBORHOODS	
Oakland, CA	1			
Philadelphia, PA	2			
Peoria, IL		1		
Phoenix, AZ	1			
Pittsburgh, PA	1			1
Plainfield, NJ	1			
Portland, OR				1
Providence, RI		1		
Pueblo, CO		1		
Queens, NY				1
Racine, WI	1			
Reading, PA		1		
St. Louis, MO	1			
St. Paul, MN	1			
Salt Lake City, UT		1		
San Antonio, TX	1			
San Francisco, CA				1
Savannah, GA		1		
Springfield, OH		1		
Tacoma, WA		1		
Tampa, FL	1			
Toledo, OH		1		1
Tucson, AZ		1		
Union County, NJ		1		
Washington, DC	1		1	
Wilmington, NC		1		
Worcester, MA				1
Yonkers, NY				1

Appendix A

Neighborhood Housing Services

Since 1972, the Federal Home Loan Bank Board has been replicating Neighborhood Housing Services programs in cities throughout the U.S., and since 1974, the Urban Reinvestment Task Force has been expanding this effort and monitoring and offering grants and technical assistance to Neighborhood Preservation Projects (NPP) in cities throughout the United States.

The Neighborhood Housing Services (NHS) program has been modeled after a program begun in Pittsburgh, Pennsylvania in 1963. Each NHS is a private program, focused on one or more neighborhoods, designed to reverse neighborhood decline by promoting reinvestment in the neighborhood.

Each NHS is a working partnership of neighborhood residents and representatives of local financial institutions and local government. It is organized as a non-profit corporation, with its operating budget provided in the main by charitable contributions of financial institutions.

The neighborhood residents provide leadership for the program in the neighborhood, building support for the program and the concept that the neighborhood can be "turned around". Neighborhood residents invite the City government to conduct a systematic but sensitive housing inspection program, and undertake to bring their own homes up to minimum health and safety standards, and frequently invest further in the modernization and visual improvement of their homes.

The City government provides a systematic housing inspection program in the neighborhood -- closely coordinated with NHS -- designed to bring about voluntary compliance with the minimum housing code. The City provides capital improvements and improves service levels where necessary. The City also may make grants to a revolving loan fund administered by the NHS and often funds the development costs of bringing the NHS into existence. Since 1975, most cities have financed the capital improvements, grants to the NHS revolving loan fund, and developmental costs out of Community Development Block Grants, and many have also financed the housing inspections and other increased service levels in the same way.

Local financial institution representatives serve on the board of directors of the NHS along with neighborhood residents, and their institutions undertake to make every loan generated in the neighborhood which meets their normal underwriting standards, waiving any doubts they might have previously entertained regarding the neighborhood's future. The financial institutions also provide many in-kind services for the NHS, such as auditing services, loan servicing, staff training, assistance in developing forms and loan processing procedures.

The NHS normally has a professional staff of three persons who have skills in rehabilitation counselling, construction monitoring, financial counselling, loan processing and servicing,

administration and community relations. They also act as advocates for the homeowner in dealing with the City, with contractors and with lenders.

NHS operation in neighborhoods

The typical order of events in a neighborhood receiving NHS assistance is as follows:

Resident members of the NHS board hold meetings in a potential target block and explain the NHS program, with a NHS staff member describing NHS services and a City inspector describing the housing inspection program. After one or more such neighborhood meetings, and a consensus has been reached among the homeowners, the City is invited to begin inspections in the block.

Following the inspections, homeowners whose homes do not meet code standards are notified of the work which needs to be done, and several courses of action are open to the homeowner. If the improvements needed are minor or if the homeowner has the savings or other personal resources, he or she may simply do the work without involving NHS. Similarly, if the homeowner already has a relationship with a financial institution, he or she may arrange for a loan to finance the work without contacting NHS.

Homeowners who contact NHS are provided with an estimate of repair costs and, if they appear to be "bankable", are referred to reliable contractors and a local financial institution for a loan. If they are "unbankable", i.e. cannot qualify for a normal commercial loan, they receive counselling, help in obtaining bids on the work and can apply for a loan from the NHS revolving loan fund. The loan committee (normally three residents and two financial institution representatives) will consider the loan application and, if they approve it, will tailor a loan to the homeowner's ability to pay. Interest rates may range from 0% to market rates and terms can be extended as far as needed to achieve a monthly payment the homeowner can handle. A lien is placed on the property to guarantee eventual repayment, so that the loan fund can continue to revolve and serve other homeowners.

As the program proceeds through the neighborhood, there is normally an increasing sense of confidence in the neighborhood by residents, lenders, and the City government, and voluntary home improvements snowball, the real estate market improves, mortgage loans become more freely available, prices stabilize or start to rise, and the neighborhood begins to turn around.

There are now 33 NHS programs in operation, and the Urban Reinvestment Task Force is in the process of developing programs in an additional 20 cities. By the end of 1977, the Task Force expects over 50 programs to be functioning.

National Loan Purchase Pool

A group representing many of the early NHS programs recognized in 1975 that a source of liquidity was necessary for the revolving loan funds of the local NHS programs, if they were not to be faced with the problem of recurring slow-down in the program due to shortages of lendable funds. This group formed a non-profit corporation which they called Neighborhood Housing Services of America (NHSA) with the objectives of raising private and public funds to support a national loan purchase pool, purchasing loans from local NHS programs, and providing other services to local NHS programs.

The loan purchase pool purchases loans from NHS programs (in packages of up to \$50,000) at par, with recourse. It presently holds the loans to maturity, allowing its funds to revolve slowly. Plans are being made to develop procedures to resell or borrow against packages of loans, so that the pool functions more like a secondary market.

The Task Force has made or committed grants to NHSA totalling \$750,000. The NHSA Board of Directors is also conducting a fund raising campaign for private contributions.

Neighborhood Preservation Projects

Beginning with the formation of the Task Force in 1974, we have participated in the developmental funding of selected demonstration projects -- called Neighborhood Preservation Projects (NPPs) -- in 16 cities. Community Development Block Grant funding is also involved in 15 of these projects.

The purpose of the Neighborhood Preservation Projects is to identify, monitor and evaluate promising locally-developed neighborhood preservation strategies which can complement the Neighborhood Housing Services program. Successful projects will become models for future Task Force replication in other communities.

The Task Force has invited applications for projects in the following fields:

- Neighborhood Commerical Revitalization
- Apartment Building Rehabilitation
- Default and Foreclosure Prevention
- Vacant Property Rehabilitation and Marketing
- Property Maintenance
- Neighborhood Stabilization
- Innovative Education Strategies
- Innovative Crime Prevention Strategies
- Equitable Treatment for Current Residents of Neighborhoods Experiencing Rapidly Rising Housing Costs

The 18 projects which have received Task Force demonstration grants to date include:

Baltimore, Maryland

Homeownership Development and Marketing Program.

Baltimore, Maryland

Municipal Program to Rehabilitate and Market Dilapidated Structures

Berkeley, California	Pilot Rehabilitation Program
Boston, Massachusetts	Jamaica Plain Vacant House Renovation Program
Chicago, Illinois	Pilot Program for Foreclosed and Abandoned Properties
Cleveland, Ohio	Buckeye Road Commercial Revitalization Program
Cleveland Heights, Ohio	Comprehensive Real Estate Program
Hartford, Connecticut	Northwest Hartford Commercial Revitalization Program
Hoboken, New Jersey	Central Hoboken Tenant Rehabilitation Program
New York, New York	Lefrak City Apartment Building Stabilization Program
New York, New York	Queens Home Maintenance Training Program
Oak Park, Illinois	Oak Park Neighborhood Preservation Project
Pittsburgh, Pennsylvania	Central Northside Pittsburgh Neighborhood Preservation Project
Portland, Oregon	St. Johns Business District Stabilization Project
San Francisco, California	Housing Conservation Institute
Toledo, Ohio	East Toledo Neighborhood Revitalization Program
Worcester, Massachusetts	Crown Hill Deleard Project
Yonkers, New York	City of Yonkers Apartment Building Rehabilitation Program

The Task Force is presently replicating on an experimental basis two successful NPPs. They are the Neighborhood Conservation Services (NCS), a variation of the NHS model for use in smaller cities, developed from the Berkeley, California Neighborhood Preservation Project, and an Apartment Building Rehabilitation program developed from the Yonkers, New York Neighborhood Preservation Project.

APPENDIX B

STATEMENT OF MARY LEE WIDENER, EXECUTIVE DIRECTOR, NEIGHBORHOOD HOUSING SERVICES OF AMERICA, INC., BEFORE THE NATIONAL CONFERENCE OF THE NATIONAL TRUST FOR HISTORICAL PRESERVATION, PHILADELPHIA, OCTOBER 29, 1976

At conferences such as this one, it is not at all uncommon to hear eminent scholars in the housing field say that historic preservation and housing for low income people just don't mix. Well, maybe it's a case of "fools rush in where angels fear to tread," but I'm here to make exactly the opposite point. I not only feel that the preservationists and the existing residents of low income neighborhoods are well suited for a merger, I also see big payoffs for both if they can make the deal.

I would like, by way of background, to share some history of an Oakland neighborhood where N.H.S. has a program.

Several years ago the California Division of Highways decided that a freeway was needed in Oakland. The State went through the usual procedures in taking property to build the freeway. They really tried to deal equitably with everyone concerned. They made fair purchases and awarded fair relocation payments. However, a side effect of their action was to take about 160 low income homes off the market. The Legal Aid Society of Oakland filed suit on behalf of the low income persons of Oakland, saying they had been harmed as a class by the removal of these structures from the market. The case was finally settled out of court with the State agreeing to pay \$5 million to make 160 low income housing units available elsewhere in the city.

Now I'm not an attorney, but I think the legal implication for historic district commissions is clear: governmental action which impacts the amount of available low income housing could create an obligation to compensate for that impact.

But, back to my original point. This gives us added incentive to avoid displacement in the improvement process, but I am convinced that there is enough payoff and good will to both the existing residents and the historical preservation movement to make it worth the hard work of making a merger without such an incentive. N.H.S. is presently involved in a project that will give us an opportunity to prove it.

One of our newest projects is developing a program to revitalize a declining downtown neighborhood in Little Rock, Arkansas. The neighborhood is in the process of being named an historic district. Obviously this adds an extra complication, but I am excited about the opportunity to face these issues head-on.

Let me be very clear that we want to encourage historic preservation efforts. We consider them important to us as a Nation and as a people. That is why we are determined to prove that historic preservation is compatible with other social goals.

In Little Rock, as in all the N.H.S. programs, we established some basic goals: The goals for the structures, the goals for the neighborhood, and the goals for the people who live in the neighborhood.

The structural goals are to remove all health and safety code violations on a systematic basis. When an owner wishes and can afford it, we go beyond minimum code requirements. We initially had some fears that historic preservation requirements would price some residents out of the ability to make repairs. But, I'll talk more about that later.

Our goal for the neighborhood is revitalization—in the sense of building on the strengths that are there. This includes getting a commitment from the city to improve public services and amenities as housing structures are improved. It also includes a concern for neighborhood businesses.

Our goal for the people who live in the neighborhood is to make it possible for them to participate in the improvement effort, remain in the neighborhood, and enjoy a new quality of life without undue hardship. We are particularly concerned about the displacement of elderly persons on fixed incomes who have lived in family homes all their lives, about displacement of low income owners who cannot afford to make repairs or pay increased taxes, about displacement of low income tenants who cannot afford higher rents, and about displacement of minorities because of changes in the social character of a neighborhood. It was this last consideration that led the late Whitney Young to describe the experience of many eastern cities as "Urban renewal means Negro removal."

The Little Rock neighborhood where we are attempting to achieve these goals consists of about 1500 housing units. The racial mix is 30% black and 70% white with a median annual income of \$7,000 and a renter to owner ratio of 70-30 for units and 50-50 for structures. A large number of beautiful historic structures, including the Governor's mansion, are scattered throughout the neighborhood.

Two organizations in Little Rock, the Quaw Paw Quarter Association and the Broadway Neighborhood Association, have worked for many years to make these structures an object of civic pride. They even print a beautiful book annually describing the buildings and conduct tours through them.

Our first step in developing the revitalization program was to get all those involved committed to the concept. We formed a group and took them out of town for a two-day workshop. The group consisted of 40 people including the city manager, key department heads from the city, executives from financial institutions, neighborhood residents, representatives of neighborhood organizations, the State preservation commissioner, and other historic preservationists. Cooperation from all of these people was essential for a successful project.

The workshop was a success. We talked through our goals and created mutually satisfactory objectives. We also built enough mutual trust to break into small groups and begin dealing with the issues we had identified. These groups have become the committees that are the backbone of our local N.H.S. organization. Each committee is carefully balanced to reflect the diversity of the community. Such groups as residents, lenders, preservationists, city staff, and community organizers are all represented.

The work that needed to be done was divided among the committees. One group selected the program boundaries, another focused on the code inspection program, another worked on developing broader community support, another concentrated on fund raising, and another designed the corporate structure and another started to recruit a staff.

Interestingly, the most difficult problem which seemed to face the effort was that of allaying the fears that residents automatically have about code inspection programs, especially the fears that minorities seem to have about the motivations of historic preservation activity. To put it bluntly, many minority residents feel that it is a conspiracy to move them out of their neighborhood and take their homes. I felt that we were making real progress when the black members of the structure committee supported a suggestion that the board of directors include representatives from the historic preservation groups. In that same discussion, they voted to invite the city to put a representative on the board. When the committees finish their work the organization will have some basic resources in place.

First, it will have a partnership of the neighborhood residents, the historic preservationists, the State historic preservation office, the city, and the lenders to carry out a coordinated improvement effort.

Second, it will have a small technical staff to assist owners through the repair process. The staff will provide financial counseling, arrange financing from private lenders, arrange code inspections, do work write-ups and rehabilitation counseling, assist in securing qualified contractors, and monitor construction.

Third, there will be a "High Risk Revolving Loan Fund" from which loans can be made to residents who cannot obtain conventional financing. This fund will be expanded to cover the cost of repairs that are a direct result of historic preservation regulations. There will also be one technical staff person assigned by the State to do historic preservation related counseling.

We feel that since historic preservation is of social value, financial assistance incentives should be offered to owners who would otherwise be forced to bear the costs of unwanted repairs beyond their personal needs just because he or she lives in a house with historic significance.

At this early point it appears that our program in Little Rock is going to achieve both historic preservation goals and neighborhood revitalization goals without chasing people out of the neighborhood. Or, to go back to my opening metaphor, the merger has taken place and the early indications are that it appears to be a healthy one.

I would like to make one final point. There are probably many local situations where neither historic preservationists nor neighborhood groups working alone would have the political muscle to accomplish their goals. But, working

together we can do the job. Working together we can build a bridge between economic, social, and racial gaps that so often divide us. Together we can rebuild the neighborhood of this country and present our children with happy, healthy, safe and prideful places to live.

APPENDIX C

[Federal Register Announcement]

URBAN REINVESTMENT TASK FORCE—NEIGHBORHOOD PRESERVATION PROJECTS APPLICATION PROCEDURES

The Urban Reinvestment Task Force is a joint effort of the heads of the Federal financial regulatory agencies and the Secretary of the U.S. Department of Housing and Urban Development to stimulate the development of local partnerships committed to a coordinated neighborhood reinvestment strategy. The members of the Urban Reinvestment Task Force are:

The Secretary, U.S. Department of Housing and Urban Development; the Chairman, Federal Home Loan Bank Board; a member, Board of Governors, Federal Reserve System; the Chairman, Federal Deposit Insurance Corporation; and the Comptroller of the Currency.

The Task Force is involved in two separate programs, Neighborhood Housing Services (NHS) and Neighborhood Preservation Projects (NPP). Both programs involve the creation of a local partnership bringing together neighborhood residents, the private sector and local government. Task Force staff plays an active role in seeking out resources for neighborhoods from a broad range of public and private entities.

NEIGHBORHOOD PRESERVATION PROJECTS

The Urban Reinvestment Task Force is participating in the developmental funding of a limited number of selected demonstrations involving a partnership of neighborhood residents, the private sector, and local government, called Neighborhood Preservation Projects. The Task Force is identifying, monitoring, and evaluating locally developed neighborhood preservation programs which show promise of potential replicability in other cities. Those programs selected receive modest demonstration grants and technical assistance from Task Force staff.

Projects may be supportive of the Neighborhood Housing Services programs or they may offer other innovative approaches to stabilizing and improving the neighborhood environment. Those preservation programs that are successful will be offered to other cities as models which they can use to treat specific problems in their neighborhoods.

PROGRAM AREAS FOR NEIGHBORHOOD PRESERVATION PROJECTS

In addition to programs which affect the physical environment, the Task Force is seeking innovative preservation strategies that deal with broader issues related to the social and economic fabric of urban neighborhoods. The Task Force will consider for selection as a Neighborhood Preservation Project applications which include (but are not limited to) one or more of the following areas:

1. Innovative financing or economic incentives to rehabilitate and stabilize apartment buildings
2. Innovative education strategies
3. Innovative crime prevention strategies and
4. Mechanisms which provide for equitable treatment for current residents of neighborhoods experiencing rapidly increasing housing costs.

SELECTION CRITERIA FOR NEIGHBORHOOD PRESERVATION PROJECTS

1. The project should involve a partnership of neighborhood residents, the private sector, and local government.
2. Preference will be given to projects that are operational or at the point of starting operations.

3. The project should be specific to a neighborhood or neighborhoods, and should either have demonstrated success or show a strong probability of success in upgrading that/those neighborhood(s).

4. Local government should be willing to allocate financial resources and technical assistance to the project.

5. Those responsible for the implementation of the project should have a demonstrated capability to perform successfully in the area of neighborhood preservation.

6. The project sponsors should be willing to provide information which can be analyzed by the Task Force or its participating agencies to judge the effectiveness of the project. Sponsors should also be willing to cooperate with the Task Force in assisting others who may wish to replicate their project.

APPLICATION PROCEDURE

Application forms are available upon request. Cities or other governmental jurisdictions or non-public entities wishing to be considered for selection as a Neighborhood Preservation Project should submit a formal application to the Urban Reinvestment Task Force by March 1, 1977.

The Task Force will review materials submitted and select promising submissions for field review. Following the field review, applications will be ranked according to their promise as demonstrations, and agreements will be entered into with the top ranking applicants, subject to the availability of Task Force resources.

Inquiries should be addressed to: Associate Director for Neighborhood Preservation Programs, 1120 19th Street, N.W., Suite 600, Washington, D.C. 20036.
WM. A. WHITESIDE, *Staff Director.*

The CHAIRMAN. Thank you, Mr. Westmoreland.

Mr. WESTMORELAND. Thank you.

I would like to thank you for the opportunity to appear before you, and I would like to preface my statement, indicating to you I am appearing not only as a professional in the field of housing, working for the Neighborhood Housing Services in Cincinnati, but I am also a resident—have been all of my adult life—of a neighborhood that is comparable I suspect to Capitol Hill, that is undergoing reverse migration.

I jokingly indicate to members of the press that in my neighborhood we are now staying up all night having meetings about the white people moving in. [Laughter.]

I would like first of all to talk about the neighborhood of Madisonville, where the Neighborhood Housing Services is operating.

The CHAIRMAN. Your statement is substantial. It will be printed in full in the record. I notice you are skipping over it.

Mr. WESTMORELAND. Right. I am not going to belabor it.

I would like to say, the things you already have before you, with Madisonville being a neighborhood of ownership where 80 percent of the houses are owned by the people who live there, even though it's now being considered a community, as the Cincinnati Inquirer described it Sunday as a community full of architectural gems, even though the suburbanites are moving in and causing prices to escalate, the people who live there have the economic option and opportunity to remain there because they own the property.

There are also some other interesting elements going on in the community that might be some interest to you. That is, the homestead exemptions, particularly for older people in Ohio, allow my great aunt to live in an affluent community where the farmhouse they live in would be valued somewhere in the forties to fifties,

allow them to remain in that community because not having to pay the kind of property tax that their neighbors have to pay, because they have now reached the age of 65 years and older.

The same exists for my grandmother and for people who live in Madisonville. So many of the homes in our community that are of significant value, the person is not forced economically to chose between paying exorbitant property tax and having to sell the home.

Mr. Whiteside referred to the need for education on the part of homeowners in older neighborhoods. I blame it on Life Magazine even though it is no longer published. But for the last 20 to 25 years, we have effectively been told that the inner cities and the older neighborhoods in America are worthless. Most of us who live in them believe it. We believe it.

We have no idea that the homes we live in are of any value. The brass, the tile, the hardwood floors, the 12-foot ceilings, the cornices—all the amenities that really transform these building into something valuable and unique, we have no affection for them.

We have been told it's of no value unless it is eight foot off the ground and is composed of $\frac{3}{8}$ -inch drywall, and is 15 miles from nowhere.

Consequently, many black people and many poor people in America don't want to stay in inner-city neighborhoods, because they don't know any better. We are even buying the large automobiles that the middle-class America is now discarding, not recognizing that we won't have gas to operate them. We are now moving into the homes they are discarding, understanding that the hospital that we work in in the inner city is now 30 miles away from us instead of 5 minutes walking.

You know, we need assistance from the media, both black and white. I would like to see Ebony Magazine write one article about one successful person in an old neighborhood in America who happened to be black. I have a feeling it would help.

The recommendations that I made to you, in combination with those made to you by Mr. Whiteside, I would like to expand on just a bit.

In Cincinnati our development department, which has been getting funds from the Federal Government for the last 20 years to work in our own black bottom, known as the "West End," or comparable to the southwest here in Washington or what is left of southwest—the development department has successfully siphoned off the funds, year after year after year and thereafter.

The West End is just as it was in the old days when people attended baseball games in Crosley Field, even though the residents of the West End are attempting to get a head start on speculators. No community development funds are being made available for them to buy the buildings in which they live and in which they wish to remain.

It would seem to me the crux of this whole matter is, is at what point do low-, middle-, and moderate-income people find themselves able to enter into the housing market as purchasers, if they wish, so that they can have some direct control and direct impact on

whether or not they remain in communities or whether or not they move.

I understand the right of eminent domain, but as a property owner in Auburn, before the city of Cincinnati or anyone else can take my home, I have the opportunity to contest that legally. I have the opportunity to exercise the property rights any other property owner has. I have the right to refuse any offer that an individual would make for my home, no matter how exorbitant it might be or how attractive it might appear.

I think what we are looking at is ways and methods of providing more people with more opportunities to have a direct impact on their lives.

Our community development corporation in Mt. Auburn has taken 300 row houses, such as the ones I am holding up here in my hand, and we own them and their value is \$8 million. We set the rent, space, on our mortgage payments and we are the people who would ordinarily be displaced. So even those of us who are renters find ourselves in a position again of setting policy that will—that we have more control. I think that is one of the questions that must be addressed.

We can come up with social legislation that will require the people to meet certain kinds of things and I think that would be a negative approach. I think it would be an approach that would not work.

I think what we need, those of us who live in older neighborhoods that are now becoming more valuable, is an opportunity, if we wish, to buy the property that is in our community.

That is my statement, sir.

[Complete statement and attachments follow:]

STATEMENT OF CARL B. WESTMORELAND
 VICE PRESIDENT/EXECUTIVE DIRECTOR, NEIGHBORHOOD HOUSING SERVICE OF CINTI. INC.
 AND
 PRESIDENT, MT. AUBURN GOOD HOUSING FOUNDATION

INTRODUCTION

I would like to thank you for inviting me to testify before the Committee on Banking, Housing and Urban Affairs.

In an effort to give you as complete a picture of our experiences regarding the question of dislocation, we have chosen to present a profile of two Cincinnati neighborhoods. Mt. Auburn and Madisonville provide some interesting contrasts. Both neighborhoods began in the early 1800's and both were located within the city limits. Mt. Auburn is located just to the north of the center of Cincinnati, approximately two miles or five minutes away. It's located on one of Cincinnati's famous "seven hills" and was the birthplace of William Howard Taft.

Madisonville is a neighborhood located 11 miles to the northeast of the central business district and in 1977, even though this neighborhood is located within the city limits, it still retains the flavor and feel of a small rural village.

Mt. Auburn is a neighborhood undergoing a renaissance as a result of the efforts of a neighborhood-based, non-profit development corporation and entrepreneurs and speculators who are taking advantage of its close proximity to downtown Cincinnati, the University of Cincinnati and Cincinnati's major hospitals, as well as its river view. Another interesting fact regarding Mt. Auburn is that the majority of the property (80% - 1960) is owned by individuals who live outside Mt. Auburn.

The revival of Madisonville is occurring as a result of the activities of the local NHS, known here as Madisonville Housing Service which, as you know, is an effective alliance involving the savings and loans of Cincinnati, the City government and the residents of this neighborhood of 13,200. Madisonville is primarily a single-family neighborhood and 68% of the residents own their own homes.

We will attempt to paint an accurate picture of what is occurring in both neighborhoods and hopefully, this information will provide you with some insight into questions of dislocation.

MADISONVILLE

Madisonville is a neighborhood located in the eastern section of Cincinnati which began as a village in 1839. The community saw decades of fame, being the birthplace of such famous men as James Whitcomb, former governor of Indiana and the namesake of James Whitcomb Riley, the famous poet. The neighborhood is also the site of Indian mounds of great archeological importance, the excavation of which has provided historians and others a clearer picture of the Americans who lived in Ohio prior to the coming of the white man.

The rural farm atmosphere of the neighborhood attracted blacks to the community as early as 1811 according to old Lodge records. For the most part, blacks and whites lived in Madisonville in harmony with their children attending the same public and parochial schools.

In the late 1950's and early 60's, this neighborhood, located 11 miles east of downtown Cincinnati, felt the result of the outmigration of poor blacks and poor whites who were displaced as a result of the construction of Interstates 75 and 71 as well as various redevelopment programs that destroyed much of the housing stock of the center city of Cincinnati. At the same time, the neighborhood was being affected by the age of the homes which averaged somewhere between 60 and 75 years and in some instances as much as 140 years. The population was growing older and young people who had grown up in Madisonville were not returning as they had done in the past to the family homesteads to assist with such things as ongoing maintenance and repairs. Some of the new migrants whose incomes were marginal purchased many of the older homes that were in need of repair at the time of purchase. Very quickly the new home owners found themselves faced with mortgage payments and repair costs that in many instances were prohibitive.

This inability of new homeowners to maintain the home in the fashion acceptable to longtime Madisonville residents and the inability of many of the new homeowners to conform to life-styles acceptable to Madisonville residents, both black and white, further aggravated the situation, and by 1972, Madisonville, which at one time had been 80% white had become 55% white and 45% black. Public services began to slip - police and fire protection were not of the quality, according to residents, that they had been previously.

At the same time it was questionable in the minds of many of the financial institutions (savings and loans and banks) as to whether or not Madisonville was a good place in which to continue to invest their money. Madisonville was not a slum, but this 150-year old community had clearly reached its crossroads.

It was in that kind of environment that Madisonville Housing Service was born

out of the joint effort on the part of the Urban Reinvestment Task Force, the Federal Home Loan Bank of Cincinnati, 28 Savings and Loans in Cincinnati, and the Madisonville Coordinating Committee, a civic organization in Madisonville of long-standing. The goal of the Madisonville Housing Service was to assist the neighborhood of Madisonville in again becoming a neighborhood in which lending institutions could make mortgage and home improvement loans at market rate interest with no greater risk than in any other neighborhood with similar demographic and economic composition. The program, established in December, 1972, is a private, non-profit corporation modeled after a similar organization which began in 1969 in Pittsburgh, Pennsylvania. In the Cincinnati area, the program is currently funded by 28 Savings and Loans.

The activity of MHS has assisted Madisonville in the following areas:

1. Home owners are assisted in securing mortgage and home improvement loans at current interest rates.
2. Low-interest loans are provided from a revolving fund to residents who do not qualify for the above - primarily elderly persons on a fixed income. In the four-year existence of the program, 34 loans have been made from this fund in the amount of \$139,851 as compared to the \$5,000,000 in home improvement being financed by conventional means at market interest.
3. Madisonville Housing Service has acted as a catalyst in assisting the residents of Madisonville to take steps to make measurable change in improving the quality of life in the neighborhood, such as:
 - a. quality of schools
 - b. reduction of serious crime as reflected in the following:

MADISONVILLE CRIME STATISTICS
(Per Cincinnati Police Statistician)

<u>No. of Cases Reported</u>	<u>1974</u>	<u>1976</u>
Burglary	460	245
Theft	339	339
Auto	77	18
Rape	10	5

- c. acceptance of uniform door-to-door code inspection which has resulted in safer homes less prone to fires as reflected in the following:

MADISONVILLE CODE COMPLIANCE
(Per Department of Buildings & Inspection)

<u>Target Area</u>	<u>Buildings Inspected</u>	<u>In Compliance at Beginning</u>	<u>In Compliance 12/31/76</u>
#1	66	32%	100%
#2	52	37%	100%
#3	40	53%	90%
#4	163	35%	100%
#5	113	34%	56%
#6	126	40%	57%
#7	176	51%	75%
Overall	736	39%	78%

FIRE STATISTICS - MADISONVILLE
(Per Cincinnati Fire Division Annual Report - 1976)

<u>Year</u>	<u>Working Fires</u>	<u>Total Runs</u>
1973	237	626
1974	206	527
1975	178	558
1976	191	463

Except for new areas, this is probably one of the few parts of the country where the percentage of buildings complying with code is so high.

4. As the result of the demonstrated willingness of Madisonville to accept positive environmental changes, the staff and Board of M.H.S. encouraged the City of Cincinnati to make needed improvements in:
- a. door-to-door code inspection with fulltime building inspectors

assigned to the neighborhood.

- b. police services
 - c. street resurfacing and repair; curb, gutter and sidewalk installation and repairs; and improved street lighting.
 - d. planning service to assist the businessmen of Madisonville in revitalizing the Madisonville Business District.
 - e. new and innovative academic programs in the Madisonville schools
 - f. technical assistance to the neighborhood development corporation of an adjoining 100-acre housing project known as Eastwood Village which is 70% abandoned. When this project is completed, the 1,000 units of slum housing will be replaced by light industry, schools for the mentally retarded, housing for the elderly, and some market-rate condominiums (again with private financing providing most of the housing and all of the industrial financing.)
5. Based on the renewed civic pride and tangible efforts of both the residents of Madisonville and the City Government of Cincinnati, the 29 Savings and Loans who are members of the Madisonville Housing Service, along with other savings and loans and commercial banks, have:
- a. reviewed loan applications from Madisonville based on the credit worthiness of the individual,
 - b. made over \$5,000,000 in mortgage and home improvement loans to homeowners in Madisonville since May, 1973,
 - c. provided technical assistance to the staff of M.H.S. such as bookkeeping and legal assistance,
 - d. had top officers of the savings and loans serve as members of the M.H.S. Board of Directors and personally become advocates of the program within the Savings and Loan industry and in the Cincinnati

business community as a whole.

Madisonville is attaining a new economically secure life as the result of the unusual cooperative efforts of the Madisonville residents, the City of Cincinnati, and the Savings and Loans and Commercial Banks. The \$5,000,000 in home improvements and the \$2,000,000 in municipal capital improvements since 1973 is impressive in this neighborhood of 13,200 people when one considers that less than \$1,000,000 was spent for home improvements and mortgages in Madisonville in the previous four years (1969-1973). It is more gratifying to note that these home improvements and new mortgages have been financed at market rate interest with no special government insurance, regulation or interference.

Homesteading has also been a significant part of the renaissance of Madisonville. This joint effort between the City's Housing Department, the local HUD office and MHS has assisted eleven families in obtaining HUD-insured homes that had been acquired by the Secretary of HUD through foreclosure. Each of the eleven families has been what one would consider to be of middle income. Several are young people who grew up in Madisonville. The homestead dwelling is awarded to the new owner by the City of Cincinnati and MHS provides architectural services, assists them in securing contractor services and refers them to local S & L's for financing at market-rate interest. The homesteading program in Madisonville is designed to provide housing for individuals who can economically maintain the house once it is in their possession.

Madisonville within the last four years has become one of the most desirable communities in the City of Cincinnati for young people looking for quality at a reasonable price. The activities of the Madisonville Housing Service and of the residents of Madisonville have enhanced the image of the community and with the rising demand for single family housing in the community, the value of housing has increased. The increased demand and the increased value of the housing in our opinion has had no

negative effect on the residents who live in the community, including those who would be classified as poor and/or elderly. This is true because most of the residents of the community (68%) own their own homes, and in contrast to a neighborhood like Mt. Auburn (where the majority of the property has been owned by absentee owners) the residents have a choice of remaining in their homes or selling them for what they perceive to be a reasonable profit. Most of the residents have chosen to remain put. It appears that they are aware that replacement property of comparable quality would be priced beyond the reach of most. Residents of Madisonville, many being longtime residents, have an intense pride and a sense of place that has been reinforced by the renaissance of the community as a whole and, therefore, there is very little interest in moving.

MT. AUBURN

Mt. Auburn, a neighborhood of 13,500 people in Cincinnati, experienced the physical and economic decline common to most older residential areas in the United States during the 1950's and 1960's. The decline reached its height in 1967-68 and the neighborhood that had been the home of President William Howard Taft and many other nationally and locally prominent Cincinnatians became the home of the black and the Appalachians who were driven and drawn by Urban Renewal and the need for inexpensive housing. One-family homes became the place of refuge for these families and often more. The social consequences of overcrowding, crime, the decline of order, and abandonment of substandard buildings took its toll. The combination of the overwhelming numbers of the poor, the absentee owners, and the decline in the quality of city services (police, fire and schools) contributed to creating a neighborhood that at best could be called a slum.

There were some redeeming factors, however, that gave a spark of hope to Mt.

Auburn:

- its view of the City of Cincinnati, the hills of Kentucky and the Ohio River
- its close proximity to the University of Cincinnati and the central business district
- the architectural and structural quality of the residences.

Unlike most innercity neighborhoods that are given new life by the middle class, the rebirth of Mt. Auburn was conceived and nourished by the black and the poor who had fallen heir to the leavings of other generations and socio-economic groups. The vehicle used by the residents of Mt. Auburn to restore life to the community is known as the Mt. Auburn Good Housing Foundation, Inc. MAGHF was incorporated in November, 1967 by residents of the community drawn together by a common desire to make a tangible change in the quality of life in their neighborhood. The primary goal was to re-establish Mt. Auburn as a desirable residential neighborhood.

The task of rebuilding the neighborhood was neither easy nor was it accomplished in a short period of time. In fact, the effort has taken ten years to reach its current point. During this 10-year period, MAGHF, starting with a \$7,000 grant from a private donor, has purchased and renovated 230 units of the neighborhood's worst housing (now valued at \$7 million). Significant improvements have been made in the areas of crime, public services, parks and recreation (see Supplement).

Now that the neighborhood has begun to improve itself, a new generation of migrants, primarily individuals of middle class socio-economic background have been attracted to the neighborhood, and this has been a mixed blessing.

On the positive side:

1. The neighborhood has developed a more positive image, city-wide, as a result of the in-migration.

2. Property values have increased.
3. Private financing has become more readily available.
4. City services have improved (police, fire, capital improvements).

On the negative side, the poorer families who are being displaced in many instances by more affluent families and even those who remain are faced with problems in the following areas:

1. Increased rents and increased acquisition prices
2. Increased density (lack of adequate offstreet parking)
3. Decline in the enrollment in public schools, coupled with a decline in the general educational program in public schools serving Mt. Auburn, influenced by a decline in the number of children and indifference towards the educational needs for the children of the neighborhood on the part of the newly-arrived middle class
4. Life-styles that conflict with the goals of existing residents of the neighborhood (absence of nuclear families, open use of soft drugs and other questionable activities)
5. A growing sense of powerlessness and rising frustration for many residents that the current in-migration will result in a second, if not a third major disruption in their lives in terms of their being forced to move against their will.

The reader will recall, most of the poor families were forced to move in the 50's and 60's as a result of highway construction and Urban Renewal projects in the center of the city. The in-migration of middle class individuals has brought about a social interaction which is seen as desirable by many - in fact many of us sought to bring in people of diverse backgrounds to the neighborhood. It is our opinion that if it is

overdone, the results could be negative for many reasons previously alluded to.

At this point there are opportunities for many of the "poor" residents who currently live in Mt. Auburn to remain in the community as a result of the activities of the Mt. Auburn Good Housing Foundation which currently owns and manages 230 units of housing, most of which is insured under 236 or 221 D 3. These renovated town-houses continue to provide high quality living opportunities at costs that are directly determined by the income of the applicant. The majority of the trustees of the Mt. Auburn Good Housing Foundation are "poor" people who are residents of Mt. Auburn, thus giving them absolute control of the 230 units currently owned and managed by MAGHF and of the 100 units currently being acquired and renovated.

Mt. Auburn has clearly become a speculator's paradise. Unfortunately, the demand for quality housing close to the city and the ability of speculators to overbid such organizations as MAGHF will limit the number of poor people who are able to remain in the community.

CONCLUSION

In direct response to the questions in Senator Proxmire's letter of invitation:

- 1) "What strategies have Neighborhood Housing Service programs developed to promote diversity in reviving neighborhoods, and to ensure that the principal beneficiaries of the program are the existing residents?"

REPLY: The primary goal of NHS is to assist the existing home owner in securing financing to not only improve the individual's home but to give the owner a renewed faith in the community by bringing in major capital improvements and assisting with the improvement of public services such as schools, police, fire, etc.

- 2) "How have you been able to keep speculators from moving in on an NHS target area once improvements are evident and the market for homes in the area increases?"

REPLY: Very simply, many of the residents are aware of the cost of replacement housing. They are flattered by the demand for their homes but now that Madisonville has become an "in" place, their wish to remain is heightened. The individual home owner is aware that as a home owner, he or she has a choice.

- 3) "What other public policies should be devised to promote diversity in rehabilitated neighborhoods and to prevent dislocation of existing residents?"

REPLY: First of all, it is impossible, in our opinion, to arbitrarily control the numbers of individuals in a community - based on race or economic background - under our form of government without violating the rights of everyone involved. However, it's our feeling that certain incentives can be developed to enable those who wish to remain in older neighborhoods that are becoming more desirable, to do so:

A. In our experience in Madisonville we have encountered several families who are residing in homes purchased with HUD and VA insurance. The quality of the homes was at best marginal at the time of acquisition and repair costs of \$5,000 per housing

unit is not uncommon. There is a need for an immediate establishment of a warranty program to the thousands of families all over this country that have been victimized by real estate and insuring programs that have left them with poor quality housing. Such a warranty program would not only cover the cost of needed repairs of the homes but would have the long range effect of enabling the families to remain in the homes. Our experience in Madisonville and in Mt. Auburn has clearly indicated that speculators have been able to acquire abandoned HUD and VA homes at the expense of former owners unable to make major repairs almost at the point of acquisition (see Attachment I).

B. An adoption on the part of both HUD and VA of a program that would provide for repair and disposal of acquired properties similar to the program being pursued by the Cincinnati insuring office, the City of Cincinnati and MHS (see Attachment II).

Note: the Regional VA and the National VA office have been unwilling to discuss this issue with us and they have clearly assisted speculators.

C. We would recommend that HUD revise its eligibility requirements for CD funds in a manner that would obligate applicant cities to develop comprehensive plans for assisting individuals who wish to remain in the community in which they live:

- a) lending programs such as interest subsidies for home repairs
- b) priority to individuals and organizations in such neighborhoods for acquiring all HUD and VA-owned property.
- c) Cities demonstrating a high degree of proficiency in such efforts should be eligible for bonuses to be used in shoring up deficient public services - i.e. special LEAA grants for walking patrolmen, special HEW grants to improve basic skills in public schools in said neighborhoods.

D. We would further encourage the resumption of the 235 insuring program to be used only in neighborhoods across the country where it can be demonstrated that there

is an overall housing strategy being implemented comparable to those being developed by NMS. We would further recommend that any resumption of the 235 program in older neighborhoods not occur until such time as HUD reviews some of its former practices which resulted in the acquisition of inferior housing and the ultimate abandonment on the part of the urban poor.

Note: the Cincinnati HUD agreement (refer Par. B) reduces the possibility of inferior housing being placed on the market again for resale. An inspection program for all homes to be insured through 235 and the compliance with specifications written as a result of said inspection would pass a better product on to the potential low-income owner.

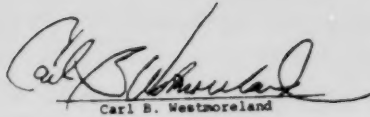
E. There is a need for a joint effort involving the Congress, Federal agencies such as HUD, and private organizations such as the National Trust for Historic Preservation to develop an ongoing relationship with both printed and electronic media, providing them with information regarding the aesthetic and cultural value of older housing in the older neighborhoods. While particular areas may not have necessarily been declared historic districts, many are sources of good, sound housing. The media, particularly television, has a tremendous impact on lower socio-economic groups in our country and it has done an effective job of painting older neighborhoods as worthless. The dream, as most Americans perceive it, sits on a quarter-acre of land in Shangri-la. The result of this notion is that most people who live in the older neighborhoods of America do not see them as places of potential beauty - even those who formerly lived in Georgetown and Capitol Hill did not appreciate those areas until someone else had removed the tar and tarnish and they were on the outside looking in. Recognizing the need for government to tread carefully on the line between itself and education and religion, hopefully a dialogue could be established between these two major influences in our society that would result in the development of an active educational alliance

on the part of religious and educational leaders who have day to day contact in older neighborhoods.

F. In older neighborhoods consisting of multi-family houses and absentee owners, it is our opinion that different strategies must be developed. The model as developed and refined by the Mt. Auburn Good Housing Foundation can assist low-income individuals in ownership through a non-profit corporation. At this point, the elimination of the 236 rehabilitation program has reduced the opportunity for ownership on the part of responsible neighborhood redevelopment corporations and encourages dislocation. It would seem to us that the question of dislocation is related to ownership. In the NHS neighborhood where there is a high degree of pride on the part of property owners, dislocation is not an important question because the private owner has the prerogative to sell or to retain ownership. In neighborhoods such as Mt. Auburn where most of the property (65-70%) is owned by outsiders, dislocation is inevitable since most individuals who own rental property are concerned mainly with profit. However, HUD could give responsible groups first right of refusal on acquired multi-family and single-family residential units. If one would relate dislocation with the ownership of property, it would seem that one of the questions that emerges is how do we as a society provide more opportunities for a larger number of Americans to own their own homes, whether they live in center city neighborhoods like Mt. Auburn or older suburban areas like Madisonville or in rural communities. For if one will look closely, the urban housing problems with which we find ourselves currently wrestling began generations ago when the landless and powerless of rural America came into the cities not only in search of employment but in search of housing - and the cycle continues. Those who are property-less find themselves continually moved by the economic weight of the demand of the places in which they find themselves; by highways and other "public improvements;" or, for housing of another socio-economic group. To own a piece of property gives one a

choice and a better sense of place and makes one less vulnerable to dislocation.

I hope that the Madisonville and Mt. Auburn profiles have enlightened you and I will be glad to respond to any questions. Thank you.



Carl B. Westmoreland

Dream home turns into nightmare --

by Kate March

A faceless landlord in a distant city, an incorrect notation on a real estate information sheet and the general naivete of a Vietnam veteran all combined to create a nightmare for a man who just wanted to provide a modest home for his family.

When Calvin Taylor made his down payment on the dream home, he did not know that it was not connected to a sewer line.

The man in a crystal ball to tell him that city housing inspectors would eventually come along and issue 11 orders against the house, nor that the Board of Health would finally order him to vacate the premises, in connection with the sewer problem.

Neither could he have known that he would be fired out of his job because of a cutback by Cincinnati Milacron.

Taylor bought the pleasant-looking duplex late in 1971, moved his mother in on one side and his wife and four children into the other.

Most home buyers, unless they are unusually sophisticated in such matters, never think to ask if there are orders against a house when they buy it.

Most buyers take as unquestioning fact the information about a house which realtors check on their little information sheet, which generally carries an idealized photograph of the house on the top side.

And with few exceptions, most are employed and have reason to believe they will have little trouble making monthly mortgage payments.

Taylor's troubles touched on each of these things, including the loss of his job

and a period of unemployment before he found another. Between jobs, his only income was unemployment compensation and general relief.

When he finally located a job with C&E, he tried to resume payments on his property, but they were returned because they did not equal the entire amount past due.

By the time he was referred to the Madisonville Housing Service (MHS), which is trying to help him solve his problem, he had uncashed money orders in excess of \$1,000 in his possession.

The mortgage is owned by a New York investment firm and serviced through another company in Cleveland.

11 orders. Financial problems were complicated by a visit by city housing inspectors in November, 1973, who issued 11 orders on the property, basic defects which must be remedied.

One of these orders concerned removal of sewage from the basement and correction of the cause of its being there.

MHS tried to help Taylor in correcting the sewer problem because he had been cited to court and was threatened with a \$100 fine and a workhouse sentence.

Several plumbers went to the house and refused the job. By assuring payment, MHS succeeded in getting one company to take the job. They put in three hours at \$18 an hour, then called to say they couldn't find the trouble, but felt sympathetic enough to just charge for two hours.

MHS then called in a sewer and septic tank cleaning company which went to the Metropolitan Sewer District for permis-

sion to pump sewage from the basement into the sanitary sewer at the street.

Surprise. That's when they found out there is no sewer of record.

City sewer workers went to work from the street, but after a couple of days were unable to locate any connection from the property to the sewer. They closed up their hole in the street and withdrew from the situation.

The information sheet originally showed Taylor by the real estate company that sold him the house indicated that there was a sewer connection.

The same information sheet carries a small statement: "Information herein is believed to be accurate, but is not warranted."

Because of the sewage problem in the basement, Taylor was ordered to vacate the house. MHS successfully sought the help of the Urban Renewal relocation office to find other temporary quarters for Taylor's family.

He still owes on the house which he cannot occupy unless it is brought up to code at a minimum of \$4,000 for a sewer tap, plus correction of other defects listed under the orders from the city building inspectors.

Says MHS, "The combination of all the misfortunes is overwhelming at this point."

They are trying to convince the mortgage holder to take back the deed of the property instead of foreclosing based on the fact that Taylor was sold "property listing a sewer when there was none."

If the mortgage-holder agrees to take this route, the unhappy home buyer

will be relieved of the burden of the property without the stigma of foreclosing and forfeiture of his right to purchase under veteran status.

Housing Service workers believe that Taylor could be a responsible homeowner and should be given the chance.

They say, "The balance of Mr. Taylor's marriage is at stake due to all this turmoil, and it is felt that for the family to go back to renter status for any appreciable time would possibly result in a breakup and all the attendant problems to the community."

At this point in time, the whole problem is pending the sewer problem, the attitude of the mortgage-holder and the marriage of a veteran who is trying to be a responsible citizen.

East Hills Jrnl.

3/1/74

ATTACHMENT I



REGION V
300 South Market Drive
Cincinnati, Ohio 45202

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
FEDERAL HOUSING ADMINISTRATION
CINCINNATI INSURING OFFICE
FEDERAL OFFICE BUILDING, 550 MAIN STREET
CINCINNATI, OHIO 45202

FEBRUARY 4, 1974

IN REPLY REFER TO:

5.942

Mr. Carl S. Westmoreland
Madisonville Housing Service
6120 Madison Road
Cincinnati, Ohio 45227



Dear Mr. Westmoreland:

This is in confirmation of the agreement reached in our recent meeting relative to our acquired property disposition program in Madisonville. We will notify you immediately upon acquisition of any property in Madisonville so that the Building Inspectors assigned by the City to the Madisonville Area can immediately inspect these houses and prepare and write City Orders that are necessary. You will forward these orders to our office within 5 working days and they will be incorporated into our specifications for the repairs on the properties.

In addition, whenever it is economically feasible for us to do so, we will repair properties in Madisonville rather than advertise them for bulk sale.

Thirdly, a decision has not been reached as to whether or not we can advertise unrepaired properties individually rather than in packages so that individual home owners may have the opportunity to purchase them.

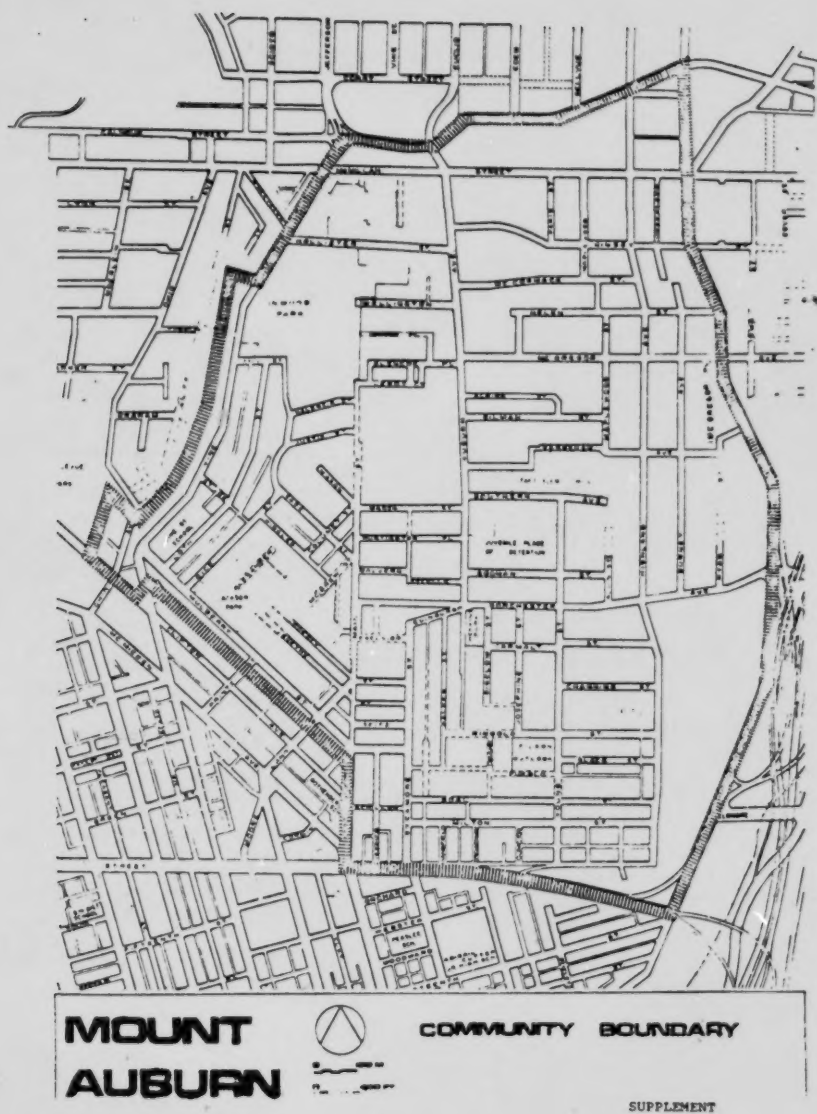
Our regulations do not permit this type of sale except where specific conditions exist which does not generally be the case in Madisonville. Nonetheless, we are attempting to do so and will let you know as soon as we are successful.

I appreciate your concern for the neighborhood, and I assure you that we will be happy to cooperate in any way we can.

Sincerely,

John R. Decker
Allen Herman, Director
Housing Management Division

ATTACHMENT II



ACTIVITIES OF MT. AUBURN GOOD HOUSING FOUNDATION

And Some of the Economic, Political and Social Benefits

+++++ +++++

On November 13, 1967, the Mt. Auburn Good Housing Foundation was issued its charter as a non-profit corporation by the Secretary of State of the State of Ohio. The Foundation's membership consists of individuals and organizations living or located in, or otherwise interested in improving the supply of housing in the Mt. Auburn area for low and moderate income families. The Foundation's Articles of Incorporation contain the following statement regarding its purpose:

The Corporation is organized exclusively for charitable, educational, and scientific purposes and is to provide, solely within the State of Ohio, housing for low and moderate income families pursuant to Section 221(h) of the National Housing Act, as amended, as well as under local and state programs, and including the rehabilitation of housing in general within the State of Ohio.

The Housing Foundation has received designation as a charitable organization (501) (C) (3) from the U.S. Internal Revenue Service.

The Housing Foundation, prior to its incorporation, was known as the Housing Committee of the Mt. Auburn Community Council. Today the Foundation still reports to the Community Council on its activities. At the orientation meeting for establishment of a Mt. Auburn non-profit housing corporation called by this Housing Committee, several Block Club representatives and other organizations considered the need for such an organization as the Mt. Auburn Good Housing Foundation.

A brief outline of the Mt. Auburn Good Housing Foundation's activities follows:

- 1). Sponsored the rehabilitation of the 16-unit Park Place Apartments under HUD's Section 221(d)(3) Rent Supplement Program. This was the first project of its kind in this section of the country to be sponsored by a community organization.
Total Cost: \$ 162,000
- 2). Advocated the redevelopment of Hopkins Park by the Cincinnati Park Board. Hopkins Park is located adjacent to the Park Place Apartments.
Total Cost: \$ 60,000
- 3). Purchased and renovated the Mt. Auburn House at 1947 Auburn Avenue. The building is used for office space by the Mt. Auburn Health Center and the Mt. Auburn Good Housing Foundation.
Total Cost: \$ 160,000
- 4). Purchased the lot at the corner of Carmalt and Sigelow Streets and have leased it for \$1.00 per year to the Cincinnati Recreation Commission for use as a Tot Lot.
Total Cost: \$ 2,500
- 5). Purchased and renovated 14 units in South Auburn I Apartments at 1925-31 Auburn Avenue under Section 221(d)(3) Rent Supplement Program.
Total Cost: \$ 200,000

SUPPLEMENT p.2

Mt. Auburn Good Housing Foundation

- 6). Purchased and renovated 56 units known as the Malvern Place Apartments under Section 236 of the National Housing Act as a Limited Dividend project.
Total Cost: \$ 670,300
 - 7). Purchased and renovated the 18-unit Hillside Apartments at 1713-33 Sycamore Street under Section 221(d)(3) Rent Supplement Program.
Total Cost: \$ 265,000
 - 8). Purchased and renovated 99 units of housing in the Glencoe area under Section 236. The 100-year old town house unit consists of two and four bedroom units. Extensive public improvements are being made to provide parking, recreation, etc. by the City of Cincinnati.
Total Cost: \$ 3,000,000
 - 9). Purchased and rehabilitated under the Model Cities Community Facilities Program the Flat Iron Building at 159 Dorchester Avenue. The building is leased to several groups including the Mt. Auburn Community Council, Mt. Auburn Federal Credit Union, Mt. Auburn Learning and Resource Center, an attorney, an architect, and a construction company.
Total Cost: \$ 133,000
 - 10). Established a management corporation called Mt. Auburn Management, Inc. which has assumed management of the Housing Foundation's 200 units.
 - 11). Purchased a building shell and parking area at Mt. Auburn's central intersection which was developed for commercial use as a convenience food store. Happy Foods Division of the Kroger Corporation has leased it for a ten-year period.
Total Cost: \$ 104,000
 - 12). Purchased and renovated the Sanning, a 36 unit building located at the corner of Southern and Auburn Avenues.
Total Cost: \$ 290,000
 - 13). Provided counseling and services to families being displaced by project development and to families wanting to purchase homes in Mt. Auburn.
 - 14). Developed a land bank by obtaining at minimum costs several parcels of property located in key areas in relation to proposed future development.
Total Cost: \$ 50,000
 - 15). Reviewed housing proposals submitted by other developers to determine if the plans were in accordance with community criteria. These provided 100 rehabilitated units of housing.
Total Cost: \$ 1,500,000 *
 - 16). Obtained 35 vacant and vandalized buildings located on Sycamore Hill and deeded them to the Park Department of the City of Cincinnati. This land will be cleared and converted to a Hillside Wooded Green Belt.
Total Cost: \$ 120,000
- Sub Total: \$ 6,476,800

SUPPLEMENT p.3

Mt. Auburn Good Housing Foundation

Collateral Projects

During the period 1967-1974, Mt. Auburn, a community consisting of 654 black residents has experienced significant growth and renewal from private sources as the result of the renovations, public improvements and other activities of the neighborhood residents through the Mt. Auburn Good Housing Foundation and the Mt. Auburn Community Council.

- 1). Assisted Christ Hospital in obtaining a large tenement building at Auburn and Karnshaw Avenues, relocating the tenants and transferring the parcel to the City of Cincinnati Building Department.
Total Cost: \$ 200,000
- 2). Private individuals have renovated 200 living units ranging from one-family town houses to larger apartment buildings. The minimum value of this activity is in excess of \$ 3,000,000
- 3). Also significant is the reversal of the nationwide trend of businesses and other services to locate outside the center city. Examples are the complete renovation of Christ Hospital - the largest private hospital in the city - using the Hospital's endowment funds.
Cost: \$20,000,000
- 4). The expansion of the Taft Broadcasting corporate headquarters facilities, the home office of Hannah Barbera, Kings Island, as well as eight T.V. and radio stations around the United States.

Total Cost: \$ 1,500,000

Sub Total: \$24,700,000

Grand Total: \$31,176,800

In each instance, these institutions and businesses have coordinated their expansion plans and renovation efforts with the residents of Mt. Auburn by participating actively in the development of a community-wide plan for Mt. Auburn and in turn, allowing the residents to review their plans in order to ascertain the compatibility of such plans with the overall renewal efforts in the community.

It is the general consensus of the City officials of the City of Cincinnati, the businesses and institutions located in Mt. Auburn and the residents themselves that this inner-city neighborhood's ability to make significant strides in reversing the physical decay, the white flight, the reduction of City services, the flight of businesses from the community, and the resumption of mortgage lending in the neighborhood has been directly affected by the self-help efforts on the part of the fulltime residents of the neighborhood.

[*] Source: Mt. Auburn: Existing Conditions, City Planning Commission, 9/1/73

1/20/77

SUPPLEMENT p.4

[From the Cincinnati Post, June 13, 1977]

THERE'S TALK AT CITY HALL ABOUT IMPROVING WEST END, BUT THESE RESIDENTS ARE SKEPTICAL

Calvin Choice, Mary Wood and Lucille Burden aren't very excited about recent talk at City Hall concerning improvements for the West End—they've heard the same song too many times before:

CALVIN CHOICE'S STORY

In the early 1950s, Choice bought the John Street Hat Works and took his place among many small businesses thriving in the West End. In 1957, he bought a building on Chestnut Street, *shortened the name of the business to "John's Hat Works"* (hence Choice's nickname, John) and got ready to remodel.

But the city wouldn't issue Choice a building permit.

"They said it would only be three to five years before the building would be torn down (for renewal)," Choice said. "I've never known from day to day what's going to happen."

He describes his shop as a "makeshift operation." Choice cast a gaze at the hats lined up on shelves here, steaming machinery there and rows of wooden hat forms stacked up in the middle of the room.

Plaster is peeling away from the wall in one corner and ventilation pipes rise up from the floor, extending sideways for several feet before reaching a wall leading outside.

"I've still got my drawings (for remodeling) at home," Choice said. "But I don't want to put any money in the shop until I find out what's going on."

John's Hat Works is in the area bounded by Central Avenue, Ezzard Charles Drive, John Street and Elizabeth Street, an area West End leaders would like to renovate. The official city plan for that area calls for demolition.

A City Council committee toured the four-block area last Tuesday and seemed interested in the renovation idea. City officials vowed to "study the matter."

But Choice isn't counting on any action, and a customer listening to the conversation remarked, "I'll tell you the damn truth, you can't trust any of those people in City Hall—they're a pack of liars."

There was a time, though, when Choice believed there was some hope for the West End.

"In 1968, federal money was flowing, and there was a big push for neighborhood development," he said. Choice was the leader of a businessmen's group and helped work on a plan to rejuvenate the West End.

"But, after so many years of nothing happening, I became disinterested—there's just no point," Choice said. He's only one of a handful of businessmen left in the neighborhood now. Choice said many got tired of waiting on the city and others were driven out of business because of the general decline of the area—which meant a decline in customers.

"The only thing that's held me on, is that my old customers—who live in Avondale, Walnut Hills and Mt. Auburn now—keep coming back," Choice said.

And what if the city really does something for the community this time? "I'd definitely remodel . . . if I can get a building permit," he said.

MARY WOOD'S STORY

Mary Wood bought a flat on John Street (near Court Street) in 1943. She's one of only a few persons still living in a line of row houses there.

The row house on one side of her flat is empty and full of debris. The rats that feed on the litter in the empty dwelling are eating their way through the wall into Mrs. Wood's kitchen.

And, her utility bill soared to \$300 one month this winter because of heat loss to the empty flats around her.

In 1968, the city told Mrs. Wood that it was going to buy the buildings on her block and tear them down. She can't afford to move until she gets the money for her property and can take advantage of federal relocation benefits.

Once an evangelist singer; the 86-year-old woman's voice cracks with age—but it still has the same force needed to belt out gospel hymns.

"They (city officials) gave us an assurance that they would take these buildings," Mrs. Wood said. "But they tore down the ones on the other side of the street. There were many fine old buildings over there, too."

"I tell ya, I had several rounds with them," she said. She laughs when she describes how many city administrators "hated to see me coming."

"But they haven't dealt fair. They haven't done what they're supposed to have done."

At age 77, Mrs. Wood was one of the West End residents who traveled to Washington, D.C. to get the Department of Housing and Urban Development (HUD) to commit federal funding to West End redevelopment.

HUD agreed and provided more than \$1 million, much of which was used for the Uptown Towers project. But most things have only gotten worse around the people who traveled to the nation's capital.

"Our hearts were in it," she said. "And the city pumped up people's minds—and then dropped us in a bucket."

"They could do something, but all they want to do is push you to one side and put you in a chicken coop . . . or a pigpen. They don't want us to have anything decent."

Mrs. Wood thinks the city is waiting for the buildings in the West End to collapse. It seems, she said, that the only development on the cleared properties has been parking lots and gas stations.

"It wasn't always this rough and tough and lookin' like a ghost town," she said. "There were some nice places here."

But she has given up hope and calls the most recent interest in West End redevelopment "a sham."

"You might fool some of the people some of the time, but you can't fool all who are looking forward to that day," she said.

LUCILLE BURDEN'S STORY

"Once, there was a ray of hope," said Lucille Burden, who lives on Elizabeth Street.

"One man hoped to see the day when the West End was a new community and was looking forward to that day," she said.

He died last year.

"I would like to believe the city will do something this time, but when you've been given so many promises through the years, you really don't feel like believing," Mrs. Burden said.

She has lived in the West End all her life and said many others love the West End and would like to stay there.

"But most people feel like there's no need to make plans for decent housing, they're waiting for the city to buy the property so they can move into a decent area," she said. "And most of our young people moved away a long time ago."

"We were really excited back in the sixties. But now, it's (the redevelopment plans) just a book of papers that doesn't mean anything," Mrs. Burden said.

The council committee tour of the West End, was something that Mrs. Burden thought should have been done a long time ago. "It seems a lot of them didn't know what existed here."

"All around is so much filth and litter and stuff—it's really depressing and all along, we're been waiting," she said. "I'm at the point where I don't think the city will ever do anything."

[From the Cincinnati Enquirer, April 28, 1977]

CITY SAYS IT IS NOT BOUND BY 1976 INFORMAL PLEDGE

A block of townhouses sits dilapidated at Lincoln and Gilbert Aves. in Walnut Hills. And a block of town folk sit waiting for the city administration to act.

The impasse surfaced again recently at a meeting of the Walnut Hills Planning Task Force. From the city came Victor Bitter, employed by the Department of Development. Confronting him were Pauline Straythorne and Penn Zeigler, respectively the executive vice president and board chairman of Major Federal Savings and Loan Association.

Major Federal and several members of the task force contend the City of Cincinnati made a "moral commitment" of \$173,000 to purchase land on Lincoln to allow the savings group to renovate the townhouses. The city argues the pledge wasn't formal.

Major Federal, Mrs. Strayhorne said, needs a property in the middle of the block before it can proceed with its project. The current owner balks at a reasonable price, she said. Only municipal purchase can make it possible.

Don Lenz, of the East Walnut Hills Assembly and a member of the task force, said "It seemed clear there was some kind of commitment that \$173,000 was allocated for the project" in the city's share of federal Community Development Block Grant funds.

In essence, Bitter said if it wasn't put in writing, the pledge is no good.

"Our position was that there was no commitment for this . . . We were committed to the revitalization of the Peebles Corner business district," Bitter said, "Keep in mind there is no verbal commitment in things like this."

Mrs. Strayhorne said she and others from Major Federal met with representatives of the city Department of Urban Development in February, March and August, 1976. "In March," Mrs. Strayhorne said, "we were told the funds had been committed . . . We were told we would have the property by 1978."

Zeigler angrily told Bitter: "We have had \$180,000 tied up in that project since 1970. Then we come up here and listen to a whole lot of gobbledygook from the city." It seems the city has seized upon disunity in the community, he said, "and we end up with nothing."

The people who might have pledged the city money no longer are under the Department of Development, Bitter said. He indicated the department no longer can be liable for whatever promises might have been made before the city government was reorganized last year. "You have been kind of caught in the middle," Bitter said.

Major Federal intends to buy all but the property in question, repair the exteriors, put in new furnaces, roofs, gutters and downspouts, Mrs. Strayhorne said. "We will gut the buildings and sell them to private individuals and we will arrange financing for them," she said.

The Department of Development, under the new reorganization plan, is not concerned with development of housing, Bitter said. "You'd have to talk to Mr. (Arnold) Rosemeyer in the Department of Housing about that," he said. "Our new mission is economic and commercial development, not housing," he said.

"But what was the 1976 recommendation for a CD allocation for Peebles Corner?" Lenz asked rhetorically. "It was a housing site."

If the task force were to press the issue, Bitter said, "it's going to come down to which of these projects (Lincoln-Gilbert or Peebles Corner) you are going to want. It's been the policy of the department not to fund two competing projects."

The city has pledged more than \$800,000 to revitalizing the Peebles Corner business area, several blocks from Lincoln and Gilbert Aves. A large part of the money would go to aid placement of a Kroger store on McMillan Avenue.

The task force approved a motion to send a letter to City Manager William V. Donaldson and Development Director Nell Surber informing them of the problem. The letter asks the city to find funds for the Major Federal project. It also urges the city to keep its "moral commitment" of at least \$150,000 for land purchase.

"Right now," Zeigler said, "it's come down to where do we go from here and who do we trust?"

[From the Cincinnati Enquirer, April 3, 1977]

DOES CITY GIVE RUNAROUND TO RENEWAL OF SUBURBS?

Jerry Armstrong sat through two boring hours of committee hearings at City Hall last week, waiting for his business to come around on the agenda.

When his turn arrived, two city department heads pleaded ignorant. His business was put off another week.

Waiting on the City of Cincinnati is nothing new for Armstrong. He's been trying for years to get the city, one way or another, to sell him the old

city jail at 1024-26 York St. in the West End. He wants to fix it up for a community center.

"Somebody's been giving me the runaround," Armstrong angrily told the Urban Development Committee. "I've been working on this for three years and nobody seems to know anything about it. No one seems to want to help me."

"Nobody seems to want it," Armstrong said. "Then I found out someone else wanted to tear it down for a parking lot."

The city owns the property. If it had a choice among keeping it vacant and productive, razed, or recycled, wouldn't the last be preferred?

"I think we'd all agree that preservation is desirable," city real estate department head Richard Melfi told the committee. "But, again, we're finding that old police property is highly desirable."

So desirable is the York Street jail that it's been vacant "for years and years and years and years and years," a spokesman for the police department said.

Armstrong's case coincides with another complaint brought before the same committee recently. Carl Westmoreland, a spokesman for Mt. Auburn and Madisonville, complained that the city, through its planning commission and Development Department, was not treating neighborhood developers with the same spirit as those in the central business district. "If I were white and wanted to put up a building at Fifth and Race Sts.," Westmoreland said, "the city would stand on its ear in a hurricane" to accommodate.

To Armstrong, Westmoreland and others, it appears the city tries everything it can to discourage small-time development.

An assistant to a council member said a community council head tried, years ago, to get the city to turn over a boarded-up building it owned for a community center. The city wanted to sell, another department head wanted it. It stayed empty for awhile. It finally was given to the other city department, the staffer said, "to store pipes."

Cincinnati expedited development of several downtown blocks by using its legal power to acquire property and sell it to developers at fractions of fair market value. The land for the Central Trust Center at Fifth and Main Sts., for example, was acquired at 35% assessed value. A municipality has other powers to acquire property for urban renewal.

Yet the city seems reluctant to use these powers as zealously when it comes to improving buildings in the neighborhoods.

Several builders interested in sinking scores of thousands of dollars into Price Hill, Coryville and Mt. Auburn have complained that nit-picking workers in the building department arbitrarily reject plans presented "for any reason they see fit." One said he thrice took architectural sketches to City Hall for approval and was turned down each time, by a different person, for three different reasons. "They say they are all for rehabbing the neighborhoods," he said, "but they don't act like they want to help."

Westmoreland, in a letter to James Cissell, vice mayor and chairman of council's Urban Development Committee, requested "a review by the city council of Cincinnati in reference to the spirit and commitment of the Development Department and the City Planning Commission in the whole process of neighborhood revitalization."

"This city's neighborhoods need the same aggressive and innovative efforts from all the departments of our local city government that is exhibited in the Central Business District of Cincinnati if we are to continue to be a good place to live."

Another snag is the lack of a uniform city policy on sale and disbursement of property it owns, the council assistant said. Each department, some run in the past as fiefdoms, owns property. Melfi told the Urban Development Committee this past week, though, that "we are trying to get a policy. We are trying to work out procedures."

And Martin Walsh, director of the Department of Buildings, reportedly has told his subordinates to do everything possible to help people renovate buildings.

But confusion remains.

Armstrong's request to the city had been scheduled for last Tuesday's committee hearing two weeks previously. The real estate and development department heads had a hard time even agreeing on whose jurisdiction covered it.

"It's obvious from what's we've seen the last two weeks," Cissell said, "that it isn't that the city doesn't have two different policies for downtown and the neighborhoods, it has no policy. Carl's (Westmoreland) and Mr. Armstrong's cases demonstrate that beautifully."

The CHAIRMAN. Thank you very, very much, Mr. Westmoreland. Mr. Adams.

Mr. ADAMS. I would like to thank you for the opportunity to speak to you and the committee. I speak as the executive director of Neighborhood Housing Services in Baltimore, a position I have held for 3 years. For 4 years prior, I was a community organizer in several neighborhoods in Baltimore.

I would like to reemphasize some of the remarks Mr. Whiteside made regarding the scope of the problem. It seems to me, the distinction needs to be made between the traditional working class—middle-class Baltimore row house kind of community and the much smaller percentage of historically and architecturally attractive communities, whether near the water or Capitol Hill or whatever makes them attractive; the latter is a much smaller number of neighborhoods.

NHS in Southeast Baltimore has had a unique opportunity to be involved in both kinds of neighborhood—traditional working class and historical and redeveloping.

I would like to emphasize some perceptions about how we define the problem. One is, the physical conditions—and size of the buildings in redeveloping or renewal areas and the public amenities that go with them—do not lend themselves to the kind of multiple-family ownership that has developed over the years. As individual homeowners have moved out, properties have been subdivided and that creates a lot of the dilemma.

Conditions of the properties are so dilapidated in many instances, if the goal was to keep a tenant in the building, you would have to have him move out in the short term to renovate the building.

The issue is not so much displacement, but how do we protect the rights of the low- and moderate-income people in the neighborhoods. I want to distinguish between the two types of neighborhoods we are involved in, the working-class, middle-class neighborhood and what your committee has called the brownstone or revival kind of neighborhood. The bulk of our experience has been in the traditional working-class area, an area of about 4,000 row houses. We have been able to systematically go block-by-block and convert the existing renters, to homeownership in their present home. In blocks where we began our program, 30 percent of the home were owner-occupied; we have been able to increase homeownership to 75 percent in the same block. We have been able to do that in most cases by helping the existing tenant to buy.

We have done that because we have some resources available which a lot of neighborhoods do not have. First, we have a tenant adviser, a person who is skilled in going door to door and offering the people the opportunity to buy.

You can put flyers out, put articles in the paper, but as Carl has indicated, people just don't believe that you can really become a homeowner. It takes a great deal to convince people that the revol-

ing door treatment they have heard about at the savings and loans and banks is different now.

We have been able because of the price scale to help people on public assistance and social security; it is particularly difficult for those people to believe homeownership is possible.

We use the availability of 100-percent financing. We have converted over 85 tenants to homeowners over a year-and-a-half period. Of those 85 loans, 80 are 100-percent loans.

In the issue of financing for tenants, we have to get away from looking at the building and at the down payment and look at the rent record, and keep people in the kind of perspective they are used to being in. Tenants in low- and moderate-income housing don't have BankAmericards and Master Charge and when we run the credit report it comes back, no record.

But there are other things they can show you that clearly demonstrate their ability to pay a certain amount of money for housing.

If you can provide the housing at that cost, then you can convert them to homeowners. That is what we have used.

The other key ingredient is a willingness of the public sector to get involved. We have a block, the 2300 block of East Fayette Street, where almost the entire block was abandoned. Adjacent to it we went to see a woman who had rented for 13 years, and asked her if she wanted to become a homeowner.

She said, no, she was just passing through. She had lived there 13 years. The point was, she didn't want to live there anymore than I did.

The public sector has to come in first and take care of the severely neglected properties and take care of the capital improvements that need to be done, then you can go to the tenant and say, "How about becoming a homeowner?"

This same woman, we went back to her, and she was delighted to become a homeowner. She now has a home she bought for \$2,500 and renovated for another \$8,000 and she is tickled to death.

In addition to that, the middle-class people who are coming into neighborhoods, both into working class and in larger quantities into reviving neighborhoods, play a critical role which, I think, is sometimes overlooked. Again, a tenant does not want to buy in a bad neighborhood.

The middle-income people provide the capital that the public sector is not prepared to invest. If the rights and availability of housing to low- and moderate-income people can be protected, we can have an equally diverse and integrated neighborhood. That is the second thing I would like to talk about, an opportunity we got into about 6 months ago, where we had three blocks of Victorian, turn-of-the-century, 3-story houses. In one block with 40 structures, there were over 300 people living. The blocks just could not contain that many people in that many housing units.

The condition of the properties just continued to run down. Our strategy of going to each family would not work in multiple family units. We were fortunate in that we had a community development corporation in addition to NHS. NHS is a great program but, like anything else, it is a tool and it works most effectively in commu-

nities with strong organizations that have community resources at their disposal. The one Carl referred to, had the ability to purchase properties.

We were involved in purchasing a number of these properties to be resold to people that can afford to fix them up. We are consciously buying additional smaller properties in the adjacent area, so we can help the existing tenant become homeowners. We are making 100-percent financing available to them.

I would like to conclude by talking a little about the speculation issue. I think in the traditional working class area, the supply of housing is so great that speculation is not that large an issue. If the community can control speculation, through a land bank mechanism, through being able to purchase property and providing housing for people already there, I think we can control the other kind of speculation, also.

The following are some specific recommendations: First, 3-percent money to people that want to rehabilitate, we also should provide low-interest loans to the tenants that are already there to buy and improve their homes.

Second, we not only invest in improvements in the areas redeveloping but we take in consideration the mobility patterns, of people already in the neighborhood—there is a way to move down, there is a way to move up. In East Baltimore, if you want to move up, you move east or south. You don't move north or west. We ought to take a look at those patterns and go a few blocks away, make some major public improvements and that becomes attractive housing that people will be happy to move to.

Third, we need to expand our ability to provide section 8 funds, in these areas. As Mr. Whiteside indicated, we need to look at relocation benefits for tenants displaced by private action, that addresses the issues not so much of large increments but how do you get the money together to move, how do you get the security deposit together, the bread-and-butter issues that really most tenants are concerned about.

Finally, I think we have to look at the issue, how do we get more financing into the neighborhoods. I think the whole area of urban lending program. There are some institutions that don't want to get talented enough to do. In Baltimore, we are very fortunate, a number of the institutions we are involved with grew up in the city and understand it, but I think we need to look at this and include in the annual examination, the auditing of institutions for their competency in the area of urban lending.

Furthermore, we need to expand the capability to make no down payment loans. Having cash in the hand is not the only ingredient to facilitate someone becoming a homeowner.

Finally, I think we need to look at some kind of alternative urban lending program. There are some institutions that don't want to get involved in urban lending for one reason or another. We need to provide, an alternative situation where an insurance fund can be set up to enable some of the riskier loans to be made by the private sector, rather than always relying on the public sector.

I thank you for the opportunity to be here.

Some of your members have taken a look at our situation in Baltimore and I would like to invite you and your committee to return again to tour NHS Baltimore.

[Complete statement of Mr. Adams follows:]

STATEMENT OF THOMAS H. ADAMS, JR., EXECUTIVE DIRECTOR, NEIGHBORHOOD HOUSING SERVICES OF BALTIMORE, INC.

Thank you for the opportunity to share with you the experience of Neighborhood Housing Services in Baltimore regarding the timely and complex issue of the impact of the "Back to the City" middle class on housing opportunities for existing residents. It is indeed ironic that the often forecast death of America's cities is reversing itself to the point where we are concerned about overimprovement at the expense of existing residents in some neighborhoods.

I think the key word here is *some* and is probably more accurately for most cities a few. As with any problem, defining its scope and significance is difficult. This issue of gentrification of our urban neighborhoods by the "affluent" middle class is an emotional and highly visible problem which I think lends itself to statement in extremes—either the glamor and ecstasy to the chic affluent family in redoing an old house or the trauma and heartbreak of the existing low income family driven from his or her home.

I would like to share with you some general perceptions about how we define the problem, review the experience of NHS Baltimore, and highlight some public policy issues for your consideration.

The key issues to be recognized in defining the problem, from my experience, are as follows:

(1) There is a distinction in scope between the housing needs of traditional working class/middle class neighborhoods—the majority in most cities—and the needs of the revival neighborhoods—a much smaller percentage.

(2) The physical conditions and size of the housing structure often predetermine and limit the potential for keeping existing residents in redeveloping areas, and often the change in use and reduction in density that accompanies the middle class return is actually a return to the density and use for which both the structures and public improvements were built.

(3) Low income residents do not choose to live in slum-like overcrowded, unsafe and unsanitary conditions, and these are the conditions that exist in many revival neighborhoods—a factor easily overlooked in the rhetoric about displacement.

(4) It is both desirable and possible to retain a significant percentage of the existing population with government support and subsidy.

(5) The uncertainty of moving is traumatic, no matter how short a distance, for most families, and intensified for low income families due to limited housing alternatives, lack of financial resources for moving, security deposits and in some instances, furniture.

(6) Geographic mobility patterns that exist determine where a family would choose to live and it is extremely difficult for a low or moderate income family to envision that a neglected slum-like neighborhood is changing and that it is a desirable place to live until after the change occurs.

In short, the issue is much less one of displacement and much more how do we provide decent affordable housing in and around redeveloping areas for the existing residents, and how do we maintain and improve housing and homeownership in traditional working class neighborhoods.

NHS in Baltimore is in a unique position regarding this topic because the southeast Baltimore target area contains primarily traditional working class units as well as a few large Victorian harbor-view structures which lend themselves to the revival or restoration approach. The majority of our experience—2½ years—is in providing home ownership and home improvement opportunities in a traditional working class neighborhood. Our experience in redeveloping and revival neighborhoods is more recent and self-initiated as NHS and the Southeast Community Organization jointly planned and are carrying out a major redevelopment effort whose goal is to maintain the economic and racial diversity of the area, while reducing density and rehabilitating the most blighted housing.

TENANT CONVERSION IN A TRADITIONAL WORKING CLASS NEIGHBORHOOD

Our experience in the traditional working class part of the NHS area has been a very positive one, and has resulted in an overall neighborhood improvement which has benefitted existing residents both collectively and individually. Through a systematic block to block effort, NHS has assisted over one hundred families in two years to become homeowners. Of these families eighty-five were existing residents of the neighborhood who purchased the house they were renting or one nearby. Thus NHS's major impact to date has been in assisting existing residents and we have found tenant conversion to homeownership a critical component of our program.

The factors which have made this conversion effort so successful in the traditional working class area are as follows:

(1) The addition to the core NHS staff (traditionally only three people) of a full time Tenant Advisor—a person solely responsible and trained to convert tenants to homeowners, funded through the Community Development Block Grant as part of our Urban Reinvestment Task Force funded Marketing and Homeownership Promotion Program.

(2) The existence of a depressed housing market which has allowed over half of the 85 purchasers to buy a home for under \$8,000, and almost all under \$12,000-\$14,000.

(3) The availability of 100% financing which includes part or all of the settlement costs through state-chartered (federals limited to 95% by regulation) Savings and Loan or Bank financing with Maryland Housing Fund insurance or the NHS Revolving Loan Fund.

(4) An understanding of the nature and inconsistencies of blue collar employment and a heavy reliance on a person's rent record as an indication of a family's potential limit for housing payments (as opposed to exclusively relying on the property for security and the down payment for equity).

(5) A willingness by the public sector—the city—to accept responsibility for the lead rehabilitation of the most neglected units (2300 block E. Fayette) through a program of rehabilitation "for resale at a write-down" and to re-invest in special sanitation services and public improvements—thus creating an atmosphere making homeownership desirable on the part of tenants.

(6) A network of strong and sophisticated neighborhood organizations linked together by the Southeast Community Organization with a series of block captains who assist the Tenant Advisor in identifying renters capable of owning as well as providing input on the somewhat subjective determination of a tenants' housekeeping and home maintenance ability.

(7) A conscious strategy of soliciting landlords to sell their properties reinforced by the pressure of block to block code enforcement program—and an operating principal of always offering a property for sale first to the existing resident.

(8) Development of neighborhood leaders as realtor and tenant advisor trainees through a demonstration project funded by the Neighborhood Preservation Program of the Urban Reinvestment Task Force.

(9) A focus on problem properties which generally sell for lower prices from investors and which allow the tenant purchaser to make a sweat equity investment in the repairs and to borrow at a reduced rate rehabilitation financing.

(10) A strategy of combining Tenant Conversions with attracting middle income families to the area through our Urban Reinvestment Task Force Marketing effort. The middle class "Back to the City" buyer typically renovates the most blighted units (homestead or oversized corner houses) which demand more economic resources.

With the aid of these tools then, we have been able to assist a significant number of working-class area residents, as well as elderly and low income families on Social Security and Public Assistance to become homeowners. The critical ingredients are the availability of trained staff, the existence of a neighborhood organization network, a creative approach to underwriting and appraising with 100% financing, and the involvement in the neighborhood of the entire NHS partnership and program. In short, tenant conversion would be quite difficult as an isolated strategy.

TENANT ALTERNATIVES IN REDEVELOPING AREAS

The NHS Baltimore experience in "brownstone" or revival neighborhood is in the western extreme of the NHS area now known as Butchers Hill. Butchers

Hill is a three by two block area which is extremely blighted with almost no homeownership and very high density. It is adjacent to the Washington Hill Urban Renewal area and experienced a rapid influx of low income families which accelerated change over the last seven years.

The most significant blight exists in the 2000-2200 blocks E. Baltimore Street where large three story turn of the century Victorian homes were subdivided into apartments after World War II to house the large number of immigrants from the South. Most of the houses contain at least three units and some as many as six. Thus there are well over 120 housing units in 40 houses in one block, housing a minimum of 300 people.

In addition to the density, Butchers Hill area housing is marked by the following characteristics:

(1) Years of absentee ownership and minimal repairs, making rehabilitation costs expensive.

(2) Lack of a rear alley system in a high density neighborhood which necessitates front of house trash collection of a large quantity of trash, and results in an overall slum-like appearance.

(3) Concentration of a number of low income tenants on fixed incomes as well as tenants with seasonal employment.

(4) Several major landlords who rent furnished apartments, and have served as starter housing for families arriving from the South.

Thus the conditions in this three block corridor were of major concern to all the communities surrounding it because of the negative impact. The member groups of the Southeast Community Organization—an umbrella coalition of 85 neighborhood associations and groups—identified this three block area as one of the highest priorities for action at its 1976 Community Congress.

As NHS began to move into this area after concentrating on stabilizing the adjacent transitional area for two years, it was evident that the strategy of tenant conversion and homeownership promotion would have to be adjusted to be effective. The size of the Baltimore Street units, the level of blight, and the concentration of low income residents necessitated a change in strategy.

NHS staff and leadership in conjunction with the community groups reached the following conclusions:

(1) The neighborhood could not afford to wait for the long process of urban renewal to extend its boundary.

(2) The incremental approach of one house at a time, used in the traditional part of the area, would not afford the new buyer the confidence needed to justify the required financial investment.

(3) Tenant purchase of the multiple family units did not seem possible, but purchase by Baltimore Street tenants of adjacent side street houses which were smaller was a realistic objective.

(4) The existence of the "Back to the City" market which potentially could be attracted to the Victorian and historical aspects of the Baltimore Street homes needed to be coupled with expanded housing opportunities for existing residents.

(5) The community had its own resources, a community controlled development corporation, Southeast Development, and its subsidiary, the Southeast Land Bank (a community controlled effort to control speculation through purchase and resale of property made possible by a \$650,000 loan from the Ford Foundation).

After reviewing these factors, NHS formed a partnership with the Southeast Land Bank and decided to approach Baltimore Street as co-developers. The Butchers Hill plan as it has developed over the last six months includes the following:

(1) Formation of a Butchers Hill Steering Committee, representing the neighborhood groups, the existing tenants and eventually the new purchasers as well as involvement of NHS lenders in every aspect of the planning.

(2) A purchase goal by the Land Bank of 50% of the houses in the initial two block target area of Baltimore Street.

(3) Land Bank purchase and NHS option on surrounding side streets for resale to tenants and to control speculation.

(4) Provision of services to existing residents in multiple family units including:

(A) Assistance from NHS Tenant Advisor and Land Bank Tenant Counsellor.

(B) NHS financing for purchase of nearby property.

(C) Maintenance of fifteen Section 8 rental units by the Land Bank in the Butchers Hill area for tenants already in area.

(D) Assistance in locating other rental housing in area.

(5) Resale of neglected properties to new owners with front and rear treatments included in price to insure architectural integrity of project.

(6) Provision by NHS of a fee for service Rehab Service Corporation to assist in the planning and carrying out of the rehabilitation.

Thus the Butchers Hill Project represents a community controlled effort that acknowledges the reality that buyers with more substantial incomes are necessary to rehabilitate larger older properties, but that the right of existing residents can be protected and served by a sensitive development plan. The Land Bank thus gives the community its own tool to compete with and control speculation.

The Butchers Hill Project has progressed to the point where the Land Bank owns 30 properties on Baltimore Street; several tenants have bought on adjacent side streets; 6 units of Section 8 housing are now available, and the Tenant Counsellor is making initial contact with each family in the area. The resale of the properties is beginning this month. Thus I offer for your consideration a model that this very day is being tested.

CONCLUSIONS

Let me conclude by dealing specifically with the question of speculation and policy areas needing study and support.

In terms of speculation, we again confront a need for definition of a term that conjures up horrible images. If speculation is defined as investor purchase of property in appreciating areas for quick turn-over and high profit, the following represents our experience:

(1) In the traditional working class part of our area, prices are slowly rising in a positive fashion, and there is little, if any, speculation because of the block by block nature of NHS and the enormous supply of comparable working class housing.

(2) In our revival or "brownstone" area, through the Land Bank mechanism, the community is attempting to control and direct speculation.

Some speculation ultimately will occur but ideally the community will control enough property and have enough lead time from having initiated the speculation rather than reacting to it that existing residents will be adequately protected and served.

POLICY IMPLICATIONS

Let me conclude with a few observations regarding policy changes that might assist in resolving or at least minimize the tension between existing residents and new "Back to the City" buyers. In general, we need to improve and make more workable existing tools at four basic levels.

First, we must increase our knowledge and understanding of the different types of redeveloping areas and insure that public policy addresses the housing and financing needs of each type of neighborhood. Within this broader issue we need to get more first-hand and objective information about the desires of present residents of redeveloping areas.

Second, we need to expand our ability to meet the housing needs of the present residents of redeveloping areas. Some specific strategies include:

(A) Low or no interest loans for tenants to buy homes in or near the redeveloping area.

(B) Increased public improvements in immediately adjacent areas to increase the availability of housing in upwardly mobile areas for tenants.

(C) Expanded use of Section 8 Substantial Rehabilitation and priority for Section 8 rental units to existing tenants in redeveloping areas.

(D) Government support of relocation benefits for tenants dislocated by private development.

Third, we need to expand governmental support without control or interference to non-profit and private organizations like Neighborhood Housing Services and Southeast Development. Government initiated redevelopment has historically been by nature slow in planning and implementation, limited in community involvement and leverage of resources, and limited in its ability to

meet the needs of existing residents. Private institutions like NHS and SDI have been limited by scarce resources and are meeting a fraction of the need.

Fourth, we need to continue to encourage financial institutions' involvement and knowledge in urban lending, as well as their ability to tailor available financing to the needs of the consumer. Specific changes that would greatly assist low and moderate income homebuying include:

(1) Development of an Urban Lender designation and requirement that financial institutions be audited periodically as to their competency in this field.

(2) Review of down payment requirements for low-priced housing (under \$30,000) to expand availability of 100% financing.

(3) Review of the role of appraisal in redeveloping area.

(4) Development of an Alternative Urban Lending Program where every financial institution chooses either to be involved directly in urban lending of designated types and to commit a percent of assets to this need, or to be involved indirectly in urban lending through pledging a percent of the institutions reserves to an insuring entity set up to facilitate and encourage urban lending to low or moderate income buyers or for difficult loans in redeveloping areas.

I would like to conclude by thanking you again for this opportunity to share our experience. A number of you had an opportunity to tour our area over a year ago, and I would like to invite you to return and take a first hand look at Butchers Hill and the overall quality of life improvement in the NHS area.

The CHAIRMAN. Thank you very much. I would like to thank all three of you for your statements. That is quite an inspiring story about encouraging homeownership. You are so right. I have run into that in politics. It is one thing to send out flyers or leave letters or communications of some kind or get in the media, it is something else to go out personally and have a person directly talk one to one to the people involved and explain the problems, explain we are talking about you, not somebody else, and it is possible for them to own their homes.

The payments are no more than they are if they rent and that they then can have something they can build as time goes on and have some equity. They can have something which they feel they can improve, not just help the landlord but help themselves. So it is a great thing you are doing. I don't mean to criticize it in any way but I understand there are some problems with it.

I have got an article here from the News American, you may be familiar with the article, July 6 by Jacques Kelly which says, talking about your operation:

The group is relocating present tenants before it resells the homes of moderate and middle income class tenants. All of the homes will be sold with the architectural covenants in the deed. Scores of renters will ultimately be forced out of the rehabilitation-destined homes.

How about the people forced out that can't swing it? I know many can, and I say what you have done is commendable but will you have a problem where people have to move out of the neighborhood?

Mr. ADAMS. The issue, No. 1, is what the problem is and how the press interprets it. The specific houses we are referring to are the large three-story Victorian structures which after World War II became starter family houses for families from the South. They have a number of apartments in there, they are unsafe, severely neglected part of the area. We do not think that the tenants, predominantly of whom are low income, could buy the building either for themselves or maintain it as a rental unit. What we intend doing is main-

taining a number of units in the block, as section 8 houses, so people in the blocks can stay right in the blocks.

Fifteen of the units involved are section 8 properties.

In addition, "neighborhood" is defined broader than a three-block area.

The CHAIRMAN. Do they have the first priority on section 8 if there is a place?

Mr. ADAMS. Yes. Immediately adjacent to the blocks we are involved in we have consciously bought a number of small properties at modest prices we are going to resell to the tenants, which lend themselves more to conversion to single family housing.

The CHAIRMAN. Can you give me any notion of the proportion, what proportion of people that live there are able to buy their homes and what proportion have to get out?

Mr. ADAMS. We are really just beginning to get into it. The proportion is, in my earlier remarks, I mentioned, they have to get out long enough for the building to be rehabilitated, even if it is section 8.

The CHAIRMAN. They will be able to get section 8 or buy another home which you will make available. Mr. Westmoreland, you and Mr. Whiteside talk about the advantage of stabilizing property tax for long-term residents, and being able to buy property for the long-term residents to live in. What concerns me is how the Federal Government as such can do anything about this. As you know, the property taxes are local or, in some cases, State, county; they are overwhelmingly local. Not Federal.

I think this is certainly a logical approach for every reason. I never talked to a homeowner, rich or poor, who wasn't frustrated with the fact that he improves the house, improves the community and gets socked with a higher tax for doing it, so he is discouraged from making that investment in his home. Some areas like Wisconsin are beginning to do something about that. Milwaukee, for instance, just passed an act in the council that will stabilize property taxes when making improvements.

You are not talking so much, as I understand, about improving the property, although that is fine, you encourage it, as talking about making it possible for people to stay there and the whole community improve. What can we do to make that possible?

Mr. WESTMORELAND. I would suggest with the CD funds and the existing programs that cities be given bonuses for certain things. An example: There are certain cities in this country that are way down the road on assisting neighborhoods revitalize themselves. I think where they come up with programs like tax exemptions for existing owners, that city should get a credit, should get a bonus for taking an enlightened approach that has a practical result.

I think that cities that do capital improvements in those neighborhoods should again get a bonus for having assisted the community in revitalizing itself. I think that cities that set up programs through their own efforts to assist the people who live in neighborhoods to stay in them again should get an extra bonus. So that if you have a city like Hoboken, or wherever, that is way down the road on Schenectady or Cincinnati with an enlightened approach in dealing

with residents in the community, through low-interest loans, tax exemptions, whatever, they then would get a proportion of benefits higher, based on their population.

A lot of CD grants now are based totally on the fact you have x number of people in your city, x number of poor people, x number of black people, x number of Latinos, et cetera, but then the CD officials, local officials, are responding with the same mediocre approaches of doing nothing, and that is siphoning the funds off to the central business district and dealing with their own cronies.

So I would give them credit every time they did something in a neighborhood like that.

I think the 236 program, particularly where you have a unit too large for single-family conversion, and the demise of the 230 program, are counterproductive. Many of the low-income residents who own property in Madisonville and Mount Auburn got there purely through 235. I would see the homes coming back now from foreclosure—they call them acquired properties—either to VA, HUD, then being made available first of all to people who live in the community.

The HUD houses and the VA houses in Cincinnati are being sold to speculators who are acquaintances and friends of the local officials and they then are being put back on the market for the middle- and upper-income people coming into the community at a high exorbitant cost. Those are houses the taxpayer already paid for.

The CHAIRMAN. The difficulty is, we have got one formula in the 1974 act and another now in conference, between the House and the Senate, there is some difference between the form of providing community development money but there is no discretionary provision that if a community is acting in a progressive way, you are suggesting it should get more. Age of housing is the predominant element in both the House and Senate formulas. Poverty, loss of population, are other elements.

You might have, as you point out, a city that has all the problems and isn't doing anything about it. And HUD can't use any discretion. They have to give it on the basis of the formula.

Mr. WESTMORELAND. If you will look at the press releases coming out of Cincinnati from the Department of Development which emphasize downtown development, they are inconsistent with the applications going into HUD which emphasize need. If you will give me 30 seconds, I will explain.

The people who apply for funds from HUD tell you how many poor people and black people they have and how sorry they are for us, what they are going to do for us. They are going to get us the hell out of Cincinnati—that is what they are doing for us. They take the Fountain Square and build nice new office buildings. That is what they are doing with the funds.

They tell you they are going to help us. They don't even give us bus fare out of Cincinnati.

The CHAIRMAN. That is exactly why we are having these hearings. We want to prevent that. This is what is happening with other programs, urban renewal, highway construction, and so forth. We want to prevent this program from going that way.

Mr. Whiteside, by and large, people want to live with their own income class. Do you find in NHS neighborhoods people of different income levels like to live among each other? Is it just a temporary

phenomenon until the neighborhood tips in one direction or the other, or is there such a thing as a durable diverse neighborhood?

We have Georgetown which has become an elite neighborhood and Capitol Hill may be becoming that rather rapidly. There is a lot of talk about how we like to have poor people and rich people and white people and black people living together. It is a great inspiration ever since Martin Luther King made that speech. I can remember how he emphasized that. What a happy and beautiful thought it was, but I wonder if it is practical.

Mr. WHITESIDE. While I think it is desirable that this happen, I think it is risky to try to engineer it to any large degree. It seems to me that there are strong social and economic forces which make for neighborhoods of different kinds to be relatively homogeneous within themselves. It strikes me that the elements we need to deal with are freedom of choice and availability of housing and availability of assistance for lower-income residents, and let the social forces play themselves out.

The CHAIRMAN. What you would say, when you make it possible to live in a heterogeneous neighborhood, people don't want to do it, that is their business.

Mr. WHITESIDE. I believe that. Yes.

The CHAIRMAN. Mr. Adams, one question that keeps recurring in this debate is, where to place the emphasis. Some people feel it is jobs. Jobs are increasing in the suburbs and blue-collar families should be given more opportunities in the suburbs. Southeast Baltimore is considered a model of a healthy diverse blue-collar community. Where do most of your people work and what is the relationship between jobs and neighborhood preservation?

Mr. ADAMS. I would say there is probably more than 50/50 mixture of people that work in the city, in the southeast Baltimore area, and persons that work at, like, Bethlehem Steel, for instance, out in the Baltimore County area. I am not sure, given the present reality, the people that traditionally would have grown up in southeast Baltimore and thought about moving out earlier, they are being priced out of those areas and are choosing to stay in the neighborhood.

I think some of the racial fears that may have precipitated some of that feeling in the past, we have gone beyond that. The issue becomes whether Government wants to take a large role in providing low- and moderate-income housing in the suburbs, then people would work closer to where those jobs were.

Within the present situation, I don't see where that is a reality.

The CHAIRMAN. On page 5, you mention that local tax assessment policies can discourage home improvement. Mr. Whiteside. I asked this same question earlier. You say some communities are willing to grant tax release for NHS areas that make obvious sense. Should the Federal Government do anything to encourage changes in local taxing practices, so they don't punish reinvestment?

Mr. WHITESIDE. I think that moves along the line Carl suggested, would be very much in order.

The CHAIRMAN. Use the CD and the leverage factor?

Mr. WHITESIDE. As bait—and to provide flexibility and provide bonuses. I think you have a man running your community development program now, Bob Embry, who distinguished himself as perhaps one of the most flexible and imaginative local housing officials

in the country. If you can give him the tools to work with, I have confidence that he can use the community development block grant funds as a way to pull cities along, to help them be more creative in this area.

The CHAIRMAN. Mr. Westmoreland, neighborhood housing service programs aren't very large in fringe areas. What do you do once you begin to succeed, when the market firms up and the neighborhood becomes more attractive? How do you stop speculators from moving in on your turf?

Mr. WESTMORELAND. You don't—you don't. It is a honeymoon. That is happening in Madisonville, except the beautiful thing is the speculators are being asked off the front porch of the property owners because they have the right to make a choice. I think that is the beauty of ownership in America, it gives you choice.

You know, they walk up and talk to someone on Chandler Street about buying their Victorian home and they want to sell it again for \$80 to \$85,000, and they say thanks but no thanks. I have lived here, I have raised my family here. In neighborhoods like this where there has been a long period of home ownership, there is a sense of place, there is a dignity that has nothing to do with a fast buck. Those people in that community really understand the value of what they have.

Unfortunately, in the neighborhood in which I live most of the people don't own their homes, and the homes are owned by someone else, who has no feeling for them. The few of us who do own homes, most of us have not appreciated them, frankly, until the white middle class began to want them. Then it was too late.

Many of us found ourselves out in the suburbs looking back. The irony is we sold them too inexpensively to begin with. You know, I have a friend who is now in Boston, who sold a house on Dorsey Street in 1974 for \$5,000. That house sold last year for \$105,000. I can document it. I have the article here. Leonard Brown sold a house that has sold one more time for \$105,000. He is living in Roxbury, in Boston, in the same kind of neighborhood he moved out of and he got 5,000 bucks.

The CHAIRMAN. The answer is to make sure those people can buy their house. They then can exercise an option. They can hold it or not. Some will sell it but many will hold on to it.

We had some discussion about land banking, where the locality or nonprofit groups buys fringe properties before they appreciate in value. They can be restored as coops or rental housing, or even scattered site public housing. That we thought was one answer to the speculators moving in and taking over.

Does NHS have the power to do that or do you work with other local groups who engage in land banking?

Mr. WHITESIDE. It is certainly desirable that this be done. Typically, Neighborhood Housing Services, with their very thin staffing, are not adequately funded to get into this and don't. The ideal situation is the kind of thing that Tom Adams just described where a neighborhood-controlled community development corporation is also in the neighborhood and can play this role.

I think it would be a mistake to encourage nonprofits which are not professionals to get land banking and housing into rehabilitation. We have found it has also been a mistake for Neighborhood

Housing Services programs, which are thinly staffed to do the basic work, to get into something where you need a bigger staff, without additional funding. I would encourage the concept you mentioned but I think it needs to be done thoughtfully and needs to be done by well-financed, well-organized groups.

The CHAIRMAN. Thank you very much for your testimony. You have been most responsive and helpful. We appreciate it.

Our final panel is Mr. Franklin James of the Urban Institute; Mr. Milton Kotler, National Association of Neighborhoods; Mr. Carl Holman, National Urban Coalition; and Mr. Conrad Weiler, Temple University, Queen Village Neighborhood Association.

All right, Mr. James, go right ahead.

I am sure you recognize the lateness of the hour. We have a film we would like to show before lunch. So if you gentleman can condense your statements, we would appreciate it.

STATEMENTS OF FRANKLIN J. JAMES, URBAN INSTITUTE; MILTON KOTLER, NATIONAL ASSOCIATION OF NEIGHBORHOODS; M. CARL HOLMAN, NATIONAL URBAN COALITION; AND CONRAD WEILER, TEMPLE UNIVERSITY, QUEEN VILLAGE NEIGHBORHOOD ASSOCIATION

Mr. JAMES. Thank you for the opportunity to speak here today.

I have submitted a rather lengthy written statement, which I would appreciate in the record.

The CHAIRMAN. It will be printed in full in the record, as will all the other statements you gentlemen have.

Mr. JAMES. I will keep my comments to a bare minimum.

I would like to make three or four basic points about neighborhood conservation.

My viewpoint on neighborhood conservation is from the point of view of an economist and an analyst of metropolitan housing markets.

I think that neighborhoods must be viewed as elements of metropolitan housing markets and their functions in those markets must be clearly understood.

I think a first step toward understanding revitalization and displacement is to clearly recognize the broad scope and the many different forms that neighborhood revitalization has taken in central cities and older neighborhoods in the metropolitan areas.

The most dramatic form has been the renovation of older neighborhoods in central cities, along the lines of what has occurred on Capitol Hill and many other neighborhoods across the country.

These neighborhoods are striking because they have experienced a rapid social turnover, because of the affluence of people that move in, and because of the striking visual change that occurs in the neighborhood.

Revitalization has taken a number of other forms as well, including higher rates of home ownership and higher housing reinvestment in moderate income black neighborhoods by black homeowners, and has taken the form of greater hope and determination to preserve neighborhoods on the part of white ethnic people in older urban areas.

In my view, the origins of the broad-scale revitalization of central city housing markets that has occurred in recent years lies in a

growing inability of new housing to provide for changing housing needs at a cost that can be afforded by most metropolitan households.

There have been two major contributors to the situation. First is a very rapid change in the housing needs.

Members of the postwar baby boom are now approaching or in their thirties, a time in peoples' lives when homeownership is desired.

There has been a massive upsurge of homeownership in metropolitan areas in recent years and sometimes the demand is unfulfilled because of the high costs of buying homes.

The 1970's have been years of very limited income growth and very rapid inflation in the cost of new housing.

Many young families desirous of homeownership have been forced to move into older housing and fix it up.

I think this offers some insight into the displacement problem, because revitalization is a signal of increasing demand and competition for older housing, due to a scarcity and a reduced volume of new construction.

Sometimes this results in a physical dislocation of a person from his home and neighborhood due to extraordinary economic forces.

In most cases, I would say in the general case, the problem is largely economic and is widespread. Revitalization means higher housing costs for people who have little choice but to live in older housing due to racial discrimination or limited economic means.

There are more people competing and looking for homes in their neighborhoods.

I think it is important to recognize that the economic element of displacement can be important even if there is no physical displacement in the neighborhood or any social turnover in the neighborhood.

The final point is a point about the future.

As I see it, the federal policy is at a turning point. There is a great deal of interest in renewing long-term commitments to encourage plentiful new housing and large-scale housing production.

At the same time, of course, the reason we are here today is because of the large interest in conserving older urban neighborhoods.

In my view, these two objectives are inconsistent, if it is attempted to practice both on a large scale.

Large-scale construction of new housing will divert demand away from older housing, will divert demand away from older neighborhoods, and will result in lower property values in older neighborhoods, less reinvestment in the older housing stock and the eventual loss or abandonment of many neighborhoods.

Of course, new housing production has to play a role in any responsible national policy as must the conservation of the housing we have today in older neighborhoods and in central cities.

I think it is very important that it be clearly recognized that a balance must be struck between the encouragement of new housing production and conservation, and that if such a balance is not struck I see the result as waste of both the older neighborhoods and of national resources.

Thank you.

[Complete statement of Mr. James follows:]

PRIVATE REINVESTMENT IN OLDER HOUSING
AND OLDER NEIGHBORHOODS:
RECENT TRENDS AND FORCES

Franklin J. James
Research Associate
The Urban Institute

Statement Before the Committee on Banking, Housing and Urban
Affairs of the United States Senate.

July 10, 1977

The reseach upon which this report is based was supported by the U.S. Department of Housing and Urban Development, Office of Policy Development and Research; and by The Urban Institute. Of course, neither organization is responsible for the findings, opnions and conclusions reported.

INTRODUCTION

In recent years, the country has learned how elusive prosperity can be as the national economy has suffered massive damage from the energy crisis and withering inflation. At the same time, the economy has been saddled with the demand for a good environment, and it is being asked to produce it while using energy more frugally than in the past.

A new mood of conservation has emerged in the country. Conservation of national resources is an important element of any strategy to protect the environment, but conservation has grown to mean more than protecting natural resources. Conservation is perceived to be an economic imperative, given the harsher realities of today. This means using the output of goods and services of the national economy more efficiently.

This new situation is apparent in many sectors of the economy, but especially in housing. The nation has become sensitive to the potentially high costs of rapid new housing development in suburbs. These costs can and have been measured in terms of environmental degradation accompanying the development of vacant land, as well as in terms of wasteful energy use, fiscal costs for local government, and social costs of racial and economic segregation of metropolitan households. While the last word on these pressing issues is certainly not in, major changes have taken place in recent years which make new housing expensive in ways which count to the housing consumer. High interest rates have pushed up the costs of building new housing and the infrastructure it requires, as have extraordinary prices of vacant land and construction materials. The energy crisis has upped home heating and utility bills. High interest rates on municipal debt have made suburban residents

skeptical about growth and the new bond issues that accompany it, and in many cases the result has been direct public restrictions on home building. Concerns for preserving suburban lifestyles from the inroads of new people and new housing have further energized local controls on growth. These controls have exacerbated inflation in the costs of new housing.

Together with the general decline in economic conditions, the high costs of new housing appear to spell an end, at least for a while, to the ability of most households to afford new housing, and many are trying to fill their housing needs through improvements to existing housing units. One strong signal of these new realities is the renaissance of reinvestment in many older central city neighborhoods. Across the country, private homeowners are taking it upon themselves to fix up older housing and older neighborhoods in central cities. In the process, they are achieving goals which have eluded government policy makers despite years of apparent and expensive effort.

The revitalization of older neighborhoods has generally meant higher values for neighborhood property, more reinvestment in neighborhood housing, and a greater measure of owner-occupancy among neighborhood residents. As a result, revitalization of older neighborhoods represents one of the most positive and hopeful trends for central cities to have appeared in many years. Revitalization means higher property tax bases in older neighborhoods, and thus promises to enhance the fiscal stability of central cities. More intense reinvestment in the older housing stock is a key element of conserving the existing housing stock and diminishing the need for energy inefficient or environmentally damaging new construction in outer suburbs. Owner-occupancy can add an important element of social stability to inner cities.

So far, revitalization has been driven largely by private economic forces. However, the hopeful aspects of revitalization have not been lost on public

policy makers, especially at the local level. Many cities around the country have used new freedom available to them under revenue sharing to embark upon ambitious new programs aimed at maintaining or upgrading levels of public services in older neighborhoods and at encouraging homeownership and home improvements by homeowners. The role of the Federal government promises to become more active in the near future.

These new public initiatives aimed at neighborhood conservation raise issues of fundamental importance for national housing and urban policy. At present, the main questions are what a substantial national commitment to conserving older neighborhoods implies for national housing and urban policies, and who might benefit and who lose from a conservation policy.

Understanding the causes and dimensions of private revitalization efforts provides important clues for public policy regarding neighborhood conservation. This paper is a short summary of some of the main findings of a recent study of revitalization, and hopefully will provide useful information.

The objectives of this paper are to lay out the dimensions of the revitalization of central city housing markets which has taken place in recent years. As will be seen, the dimensions of the revitalization of central city neighborhoods offer startling indications of the potential strength of the demand for central city housing, a potential which went largely unnoticed and untapped during the 60s and early 70s. Unaided by national policy, the nation is already engaged in conserving older housing and neighborhoods in a substantial way. The paper will also identify the economic roots of this revitalization. This analysis will offer insight into the economic matrix within which public initiatives for conservation must operate. Finally, the paper will quickly discuss some important issues for a national policy aimed at conservation, and lay out some of the pitfalls of an inappropriately designed conservation strategy.

Anticipating a bit, the main finding of the study is that in large perspective, the revitalization of older neighborhoods is a symptom of a growing shortage of new housing appropriate for meeting the needs of metropolitan households. This shortage results both from rapidly changing housing needs and from rapid inflation in the costs of new homes.

This findings is important, because the evidence suggests that renewed high levels of new housing construction due to public policy or private economic events will take much of the steam out of revitalization. The importance of this finding is clear. In the past, national housing policy has relied very heavily on new construction as the tool to upgrade national housing standards and to provide for needed geographic mobility of urban households seeking better neighborhoods and seeking to live closer to their jobs. A national strategy aimed at large scale conservation of older neighborhoods dictates that this past reliance on new construction must be curbed or shelved.

A second major finding of the study is that a conservation strategy can impose heavy burden on some groups of the population, unless they are protected by appropriate public policies. Problems with conservation are particularly pressing for families locked into central city housing by low income or racial discrimination. A conservation strategy will mean that these long term residents of central cities are faced with new competition for their homes and neighborhoods. With limited resources in tight housing markets, the long-term residents of older neighborhoods can seldom win in this competition. Without public assistance, revitalization promises to improve neighborhood conditions for only those long term residents who can afford to pay for better conditions. The higher housing costs associated with the revitalization of older neighborhoods can force many city residents to cut back on their housing standards

and can force them to move to neighborhoods beyond the reach of revitalization, neighborhoods which may be worse than conditions available to long term residents before revitalization began.

Together, these two conclusions imply that a large scale policy encouraging the conservation of older neighborhoods requires basic change in the structure of national housing policies and major new responsibilities for national policy makers to insulate disadvantaged people from deleterious side effects of an effective conservation strategy.

It is important to keep in mind a third finding of the study. It seems likely that private economic forces behind the revitalization of older neighborhoods around the country are likely to prove persistent. This means that the problem of protecting long term residents of older housing from displacement must be squarely faced by national policy, whether or not the nation embarks on a formal policy encouraging conservation.

THE NATIONAL DIMENSIONS OF REVITALIZATION

Signs of recent large scale private forces revitalizing older neighborhoods are most apparent in central cities. The place to begin is with a clear picture of recent national trends in central city housing markets, and the best way to do this is with national data. National data are rather numb indicators, but that is a solid advantage. Only gross, significant trends can be measured at a national scale and national data describing conditions in cities leave no doubt as to the dimensions of the new vitality of central city housing markets.

Housing Values in Central Cities

Recent trends in housing rents and values offer a hint of the dimensions of the revitalization of central city housing markets. Growth in these indexes of housing demand has been persistently more rapid in suburbs than in central cities. During the decade of the 60's, the median value of owner-occupied dwellings in suburbs increased by 50 percent (from \$13,800 to \$20,800). In central cities, the median value of owner-occupied housing increased by only 33 percent, from \$12,300 to \$16,400. The relatively slow growth in central city housing values persisted between 1970 and 1973. As shown in Table 1, during this time period median housing value increased by 36 percent in central cities, and by 42 percent in suburbs. Abruptly, in 1974 and 1975, inflation in housing values in central cities caught up with that of suburban housing. Between 1973 and 1975, median housing values increased by 20 percent in suburbs and by 21 percent in central cities.

Much the same trend is apparent in the rents of renter-occupied housing units. During the period 1960-1973, inflation in housing rents in cities

Table 1

MEDIAN RENTS AND VALUES OF HOUSING UNITS
IN CENTRAL CITIES AND SUBURBS:
1970-1975

A. Renter-Occupied Units^a

Housing Unit Location	Median Gross Monthly Rents				Percent Change		
	1970	1973	1974	1975	1970- 1973	1973- 1974	1974- 1975
Central Cities	107	131	140	152	22.4	6.9	8.6
Suburbs	130	162	171	185	24.6	5.5	8.2

B. Owner-Occupied Units^a

	Median Estimated Values				Percent Change		
	1970	1973	1974	1975	1970- 1973	1973- 1974	1974- 1975
Central Cities	16,400	22,300	24,800	26,900	36.0	11.2	8.5
Suburbs	20,800	29,500	32,500	35,300	41.8	10.2	8.6

^a Includes only specified owner or renter-occupied units.

Source: U. S. Bureau of the Census, 1970 Census of Housing, Metropolitan Housing Characteristics: United States and Regions; and U.S. Bureau of the Census, Annual Housing Survey, Part C, "Financial Characteristics of the Housing Inventory."

lagged behind suburban inflation. Between 1973 and 1975, the situation was reversed. Median gross rent increased 16 percent in cities and by 14 percent in suburbs.

In 1975, values and rents of city housing were still much lower than those of suburban housing, reflecting the greater age and lower quality and condition of the housing stock of cities. The momentum had shifted.

Homeownership In Central Cities

Recent trends in homeownership offer stronger signals of the revitalization of central city housing markets. One of the central aims of cities and of national urban policy has been the encouragement of homeownership. Local and national policy-makers have long believed that owner-occupancy is one key to both social stability and good quality maintenance of older housing.^{1/}

The fact is, homeownership has grown significantly in central cities in recent years. Between 1970 and 1975, numbers of owner-occupants in cities grew by almost one million. These new owner-occupants comprised more than three-fourths of the net growth in numbers of city households during the period. As shown in Table 2, the result was a small but significant increase in the rate of owner-occupancy in cities since 1970, from 48.1 percent in 1970 to 49.6 percent in 1975. Growth in the rate of owner-occupancy in suburbs was more moderate, from 70.3 percent in 1970 to 71.0 percent in 1975.

Of course, a considerable portion of growth in numbers of owner-occupants in central cities and suburbs was accommodated in newly built homes and condominiums. This was particularly true in suburbs, where new homes accounted for 86 percent of the growth in owner-occupancy between 1970 and 1975. Even in

^{1/} See George Sternlieb and Robert Burchell, Residential Abandonment: The Tenement Landlord Revisited. (New Brunswick, N.J.: Rutgers University Center for Urban Policy Research, 1972).

Table 2
OWNER-OCCUPANCY IN CENTRAL CITIES AND SUBURBS
1970-1975

A. Numbers of Owner-Occupants							
Location	Number (000s)				Percent Change		
	1970	1973	1974	1975	1970- 1973	1973- 1974	1974- 1975
Central Cities	10,300	11,087	11,199	11,280	7.6	1.0	0.7
Suburbs	15,790	17,854	18,509	19,104	13.1	3.7	3.2

B. Percent of Households Owning Their Own Home				
	1970	1973	1974	1975
Central Cities	48.1	49.3	49.6	49.6
Suburbs	70.3	70.8	70.9	71.0

Source: U.S. Bureau of the Census, 1970 Census of Housing, Metropolitan Housing Characteristics: United States and Regions; and U.S. Bureau of the Census, Annual Housing Survey, Part C, "Financial Characteristics of the Housing Inventory."

cities, newly built owner-occupied homes accounted for slightly more than 80 percent of the growth in homeownership between 1970 and 1975. Nevertheless, 170,000 existing housing units in cities were transferred to owner-occupancy between 1970 and 1975. Thus, increased demand for owner-occupancy in cities is having a decided effect on the older housing stock.

Reinvestment in Central City Housing

Quantitative measures of reinvestment in their homes by central city homeowners offer by far the strongest evidence for the revitalization of central city housing markets.

In order to keep track of reinvestment, every three months the U.S. Bureau of the Census takes a survey of home repairs and improvement expenditures by homeowners around the country. (This survey is called the Survey of Residential Alterations and Repairs). Table 3 presents Census estimates of aggregate reinvestment expenditures made by owner-occupants of one-family homes around the country during the period 1968-1976. The dollar figures in the table have been adjusted for inflation, and measure reinvestment in constant 1973 dollars.

During the early 70s, suburban homeowners outspent their counterparts in central cities by very substantial amounts. For instance, in 1970, the average suburban owner spent \$388 (measured in 1973 dollars) on his home, not counting the value of time spent by the homeowner or his friends and family. The average owner in the city spent only \$320. Beginning in 1973-1974, expenditures by city homeowners shot up abruptly, to levels which exceeded those in suburbs. Average home maintenance expenditures in cities have since continued to grow. By 1976, the average city homeowner spent more than \$436 to repair or improve his home, measured once again in 1973 dollars, higher than at any time in the recent past. Reinvestment expenditures by suburban homeowners did not catch

Table 3

EXPENDITURES FOR MAINTENANCE AND REPAIRS AND CONSTRUCTION
IMPROVEMENTS OF OWNER-OCCUPIED ONE HOUSING UNIT PROPERTIES BY LOCATION

Total Expenditures by Homeowners
(Constant 1973 \$, in millions)

Year	National Total	INSIDE SMSAs			Outside SMSAs
		Total	Central Cities	Outside Central Cities	
1968	11,282	7,523	2,902	4,621	3,760
1969	11,032	7,624	2,706	4,917	3,408
1970	11,748	7,970	2,600	5,370	3,777
1971	12,083	7,733	2,455	5,279	4,349
1972	12,310	8,767	2,607	6,159	3,543
1973 ^b	10,986	7,999	2,734	5,264	2,987
1974 ^b	11,954	8,328	2,939	5,389	3,626
1975 ^b	12,690	9,055	3,417	5,638	3,636
1976 ^b	14,665	10,198	3,431	6,767	4,467
<u>Average Expenditure per Property</u> (Constant 1973 \$)					
1968	336	371	375	368	283
1969	317	359	340	372	250
1970	329	362	320	388	273
1971	329	344	303	366	308
1972	330	383	332	409	247
1973 ^b	281	349 ^a	348 ^a	350 ^a	208 ^a
1974 ^b	299	364 ^a	374 ^a	358 ^a	253 ^a
1975 ^b	309	395 ^a	435 ^a	374 ^a	253 ^a
1976 ^b	350	445 ^a	436 ^a	449 ^a	311 ^a

^a These figures are derived from census data on total expenditures, with the assumption that numbers of properties in central cities, suburbs and metropolitan areas held at their 1973 levels.

^b Only expenditures made on jobs costing \$25 or more are included in these figures.
Note: Expenditures measured in current dollars were deflated by the GNP deflator for new housing construction.
Source: U.S. Bureau of the Census, Construction Reports, "Residential Alterations and Repairs," annual.

up with reinvestment in city housing until 1976.

Moreover, available data leave no doubt that a considerable portion of the reinvestment in central city housing is aimed at upgrading the existing housing stock. As shown in Table 4, central city homeowners increased their expenditures in several broad categories of work. After adjusting for inflation, between 1970 and 1976, average expenditures by central city homeowners for home repairs grew by 43 percent. Their expenditures for structural additions and alterations grew by 46 percent. Expenditures for major replacements of existing equipment increased by 24 percent.

Of course, these expenditure figures do not count the sweat equity invested by owner-occupants in their homes. Unpublished data from the Census Survey of Residential Alterations and Repairs were used to ascertain average numbers of home maintenance projects costing more than \$25 which were undertaken by homeowners in 1974, and again in late 1975 and early 1976. At the beginning of the period, homeowners in central cities performed about 1.2 major home maintenance jobs per home per year.^{1/} By 1975-1976, the average rate of home maintenance work had jumped to 1.6 jobs per year. The increase in the overall numbers of home maintenance jobs in suburbs was only half as great. Measured by numbers of jobs, central city housing was being nearly as well-maintained in 1975-1976 as was suburban housing, a striking change to have occurred during what amounts to an 18-month interval.

^{1/} A major home maintenance job is one costing \$25 or more.

Table 4

AVERAGE EXPENDITURES BY CENTRAL CITY HOMEOWNERS
FOR HOME MAINTENANCE AND IMPROVEMENT JOBS COSTING \$25 OR MORE,
BY TYPE OF JOB: 1970-1975
(Constant 1973 Dollars)

Year	Total	Maintenance and Repairs	Construction Improvements		
			Total	Additions and Alterations	Major Replacements
1970	313	102	210	141	68
1971	295	109	187	110	77
1972	323	100	225	155	69
1973 ^a	348	109	239	168	71
1974 ^a	374	106	269	170	98
1975 ^a	435	137	297	219	79
1976 ^a	436	146	290	206	84

^a These figures are derived from Census data on total expenditures, with the assumption that numbers of properties in central cities, suburbs and non-metropolitan areas held at the 1973 levels.

Note: Expenditures measured in current dollars were deflated by the GNP deflator for new housing construction.

Source: U.S. Bureau of the Census, Construction Reports, "Residential Alterations and Repairs," annual.

REVITALIZATION: THE NEIGHBORHOOD PERSPECTIVE

National data cannot provide a rich feel for the sometimes dramatic nature of the changes occurring in many older urban neighborhoods. Only case studies of revitalizing neighborhoods can provide such insight.

Private Neighborhood Renovation

Many observers became aware of the revitalization movement in cities as a result of dramatic instances of the private renovation of whole neighborhoods by affluent newcomers. During the 60s, privately renovated neighborhoods such as Georgetown or Greenwich Village or Boston's South End were dismissed as unique. During the 70s, homeowners have begun to renovate old neighborhoods all across the country. Five years ago, a survey was undertaken of this type of activity in 20 major cities. It was found that private renovation activity was occurring on a substantial scale in over 60 separate neighborhoods in the cities. More recently, the Urban Land Institute surveyed housing and planning officials in every central city in the nation. It was found that this type of dramatic neighborhood recycling was occurring in fully half of the cities in the survey, and in three-quarters of the cities with populations in excess of 500,000. Quantitatively, it was estimated that perhaps as many as 50,000 housing units had been renovated in these revitalizing neighborhoods between 1968 and 1975.^{1/} There is no doubt that this type of renovation has continued apace since then.

^{1/} J. Thomas Black, "Private Market Housing Renovation in Central Cities: A U.L.I. Survey," Urban Land.

Capitol Hill in Washington is one of many examples. Restoration on the Hill now covers almost 100 square blocks of downtown Washington. As the name implies, the neighborhood is located around the Capitol Building. Once a middle class neighborhood of Victorian rowhouses, Capitol Hill fell into disrepair in the 30s and 40s. By 1950, when the first tentative signs of renovation appeared, the neighborhood contained some of Washington's worst slum areas.

Renovation caught on in the neighborhood during the early 60s. In areas of the Hill overtaken by restoration during the 60's, housing rents and values rose more than twice as rapidly as in the District as a whole. Homeownership increased slightly. Numbers of black households fell by one-third during the 60s as affluent, childless white families purchased and rehabilitated neighborhood homes. The pace of restoration accelerated markedly in Capitol Hill during the 70's after having been temporarily slowed during the late 60's. Renovation activity has begun to push out into deteriorated areas surrounding the Hill.

Neighborhoods like Capitol Hill have been noticed both because they are striking to the eye amidst the deterioration which often surrounds them, and because new residents in these neighborhoods tend to be articulate, filled with enthusiasm and eager to make known what is happening, while long term residents are often displaced from their homes, forced to move elsewhere, and angry about it.

A recent small scale survey of new home buyers on Capitol Hill found that 80 percent of home buyers were white. The average age of buyers was 35 years. Ninety percent received annual incomes of more than \$20,000, and

eight out of ten were buying their first home. This general profile is typical of homebuyers in neighborhoods being renovated around the country.^{1/}

By contrast, families leaving these renovated neighborhoods are much different, tending to be poor, and tending to be renters, and often are blacks or other minorities. While data are sparse, it appears that families displaced in the course of renovation tend often to stay in the immediate area or move to other deteriorated neighborhoods not subject to renovation pressure. For instance, a small neighborhood organization on Capitol Hill devoted to helping displaced families made it possible to ascertain what happened to 29 displaced families. Of these families, 14 sought to remain on the Hill and relocated to other homes in the neighborhood after being displaced, despite the prospect that they were likely to be displaced again. The great bulk of the remainder moved to a largely black neighborhood called Anacostia, which lies across the Anacostia River from the Hill, or to other deteriorated neighborhoods in the District.

The Revitalization of White Ethnic Communities

Measured in hard quantitative terms, 50,000 renovated housing units are a drop in the whole bucket of over 20 million housing units in central cities. These renovated neighborhoods are important because they signal

^{1/} For other studies see Dennis E. Gale, "The Back-to-the-City Movement Or is it?" (Washington, D.C.: George Washington University Department of Urban and Regional Planning, undated manuscript), and Sybil W. McWilliams, "Recycling a Declining Community: Middle Class Migration to Virginia Highlands," (Atlanta, Georgia: unpublished masters thesis, Georgia State University School of Urban Life, December 1975).

a basic shift upward in efforts by a wide spectrum of homeowners to preserve older housing in a wide variety of central city neighborhoods. This underlying shift toward conservation is less apparent, because it cannot be measured by dramatic changes in housing or neighborhoods. Nevertheless, the careful observer will have run across signs of this conservation activity. For instance, ethnic enclaves around the country proved bulwarks against housing abandonment during the early 60s and today many are gathering their energies to upgrade neighborhood conditions. Southeast Baltimore is one Baltimore neighborhood where long-term residents are striving to improve their housing and their neighborhood, and to maintain the social fabric of the area. Another example is East Boston, bordering Logan Airport across from Boston's central business district, where a similar revitalization effort is occurring.

East Boston is an extraordinarily homogeneous community of around 40,000 people. During the late 60's, Boston began a major push to improve conditions in the neighborhood, and in the process injected new life in the area. Beginning around 1969, housing values and housing rents began to rise rapidly, as did homeowners' expenditures for home improvements. Homeownership appears also to have grown rapidly. In 1970, 29 percent of neighborhood households owned their homes. According to a recent survey, 38 percent of residents were homeowners by 1976. It appears that the revitalization of the neighborhood has not meant significant change in the characteristics of neighborhood residents. Much of the reinvestment in housing in the neighborhood is being undertaken by long-term owners, many of whom are elderly. Even today, the great bulk of neighborhood residents have deep roots in the neighborhood, having lived there most of their lives, and having relatives in the neighborhood.^{1/}

^{1/} Carol Gladstone, "Sonic Bloom: The Revitalization of East Boston," (New Haven, Connecticut: Unpublished senior paper, Yale University, 1977).

Revitalizing Black Neighborhoods

Least visible of all to most observers are revitalized black neighborhoods, where black homeowners are fixing up their homes with renewed vigor today. Mattapan, a Boston neighborhood, can serve as an example. Mattapan underwent racial change during the 60s. Housing values in the neighborhood are reported to have suffered from block-busting and the other traumatic side effects of racial change. Some Boston officials report that Mattapan is recovering today. University City, a suburb of St. Louis, is another example of a revitalizing neighborhood where black homeowners are playing an important role.

In 1960, University City was an all-white community. Racial change began in the early 60s, and by 1970, approximately 20 percent of the neighborhoods' population was black. For a time before and after racial integration began, property values in the city hardly changed. City records of property transactions document a startling surge in demand for homes in University City beginning in 1974. Housing in the city was being sought out by black households upgrading their housing standards and buying their first home. ^{1/}

^{1/} City of University City, Population and Housing Trends Update, June 1975, p. 5.

THE CAUSES OF REVITALIZATION

The surprising fact is that the many forms of neighborhood revitalization rest on common foundations. One major force behind revitalization has been inability of most metropolitan households to afford to satisfy their housing needs in today's new homes. The second major force has its roots in demographic trends changing the housing need of urban families: this force is the aging of members of the post-war baby boom into stages of their lives when they seek to purchase homes.

New Housing in the 70s

Perhaps the single most important piece of economic news for central cities in recent years was the collapse of new housing production which occurred in 1974, 1975 and 1976. This collapse signalled the end for a time in the ability of metropolitan households as a group to upgrade their housing standards by abandoning older housing and rebuilding anew. As shown in Table 5, new housing production in the nation lagged behind household growth in all three years. Even when mobile homes are counted, total national housing production barely kept pace with household growth. The necessary result was increasing occupancy and increasing competition for older housing.

The dramatic nature of this situation is clear when housing production and household growth are compared in earlier years. During the period of the 60's covered in the table, annual national growth in numbers of households--a direct measure of housing occupancy--averaged 1,200 thousand. During the same period, annual housing production average 1,700 thousand units, including mobile homes. Thus, each year new housing construction exceeded household growth by 500,000 units. This excess, which can be termed replacement housing construction, meant higher vacancy rates and higher rates of

TABLE 5

NATIONAL TRENDS IN HOUSEHOLD GROWTH, NEW HOUSING PRODUCTION,
AND REPLACEMENT HOUSING CONSTRUCTION: 1963-1975

YEAR	Numbers of Households		Numbers of Newly Constructed Housing Units		Replacement Housing Construction ^c			
	Numbers ^a (000s)	Change From Previous Year ^a (000s)	Including Mobile Homes ^b (000s)	Excluding Mobile ^b (000s)	Including Mobile Homes		Excluding Mobile Homes	
					Numbers (000s)	Percent of Households	Numbers (000s)	Percent of Households
1963	55,189	--	1,786	1,635	--	--	--	--
1964	55,996	807	1,752	1,561	945	1.7	754	1.3
1965	57,251	1,255	1,727	1,510	472	0.8	255	0.4
1966	58,092	841	1,413	1,196	572	1.0	355	0.6
1967	58,845	753	1,562	1,322	809	1.4	569	1.0
1968	60,446	1,601	1,863	1,565	262	0.4	-56	-0.1
1969	61,805	1,359	1,913	1,500	554	0.9	141	0.2
1970	63,401	1,596	1,870	1,469	274	0.4	-127	-0.2
1971	64,778	1,377	2,582	2,085	1,205	1.9	708	1.1
1972	66,676	1,898	2,955	2,379	1,057	1.6	481	0.7
1973	68,251	1,575	2,625	2,058	1,050	1.5	483	0.7
1974	69,859	1,608	1,682	1,353	74	0.1	-255	-0.4
1975	71,120	1,261	1,384	1,171	123	0.2	-90	-0.1
1976	72,867	1,747	1,798	1,548	51	0.1	-199	-0.3

^a Numbers of households are measured in March of each year.

Source: U.S. Bureau of the Census, "Household and Family Characteristics" (Current Population Reports, P-20).

^b Source: U.S. Department of Housing and Urban Development, Housing in the Seventies: A Report of the National Housing Policy Review (Washington, D.C.: U.S. Government Printing Office, 1974), Table 2, Chapter 4, and conversations with Duane McGough, U.S. Department of Housing and Urban Development.

^c Replacement housing construction is the difference between new housing production and household growth.

retirement of older housing supplanted by new homes.

The early 70's (1971-1973) stand out as an even more extraordinary period in housing history. In 1972, almost three million new homes were built, a record high level. During the first three years of this decade, replacement housing construction exceeded one million housing units annually, apparently for the first time. Even excluding mobile homes, replacement housing construction approached or exceeded one-half million units, a level not seen since the early 60's. The turnabout since 1973 is clear and dramatic. Total housing production in 1974 and 1975 barely matched the housing production achieved in 1972 alone.

During 1974 and 1975, new homes were not being built because they were very expensive. Ample data are available to describe trends in the costs of new housing to homeowners.

The most direct and simple measure of the costs of new housing to homeowners is trends in the average sale prices of newly built homes. In 1963, the national average price of new homes actually sold during the year was only slightly more than \$19,000. In 1976, it stood at \$48,000, more than 2.5 times as much. This inflation was in part the result of changes in the characteristics of new homes being built: i.e. their size, quality, location and so forth. However, changes in the characteristics of new homes did not account for much of the inflation in costs. Each year, the U.S. Census Bureau estimates the average sales prices of a standard new home representative of homes being built in the nation in 1967. According to Census Bureau estimates, this standard new home would have sold for \$22,000 in 1963. By 1967, its average price had increased only slightly to \$24,500. If built in 1976, this home would have cost \$47,100.^{1/}

^{1/} U.S. Bureau of the Census, Construction Reports, "Price Index of New One Family Homes Sold."

The purchase price of a home is only one of many determining components of housing costs to homeowners. Mortgage interest rates, property tax rates, fuel costs, and a number of other factors work together to influence the total costs of new homes to their occupants. The best overall measure of what recent housing cost inflation has meant for homebuyers is how the various components of housing costs have worked together to influence the monthly out-of-pocket costs of owning and managing the home. The figures are presented in Table 6. In making the calculations, it was assumed that a typical new home mortgage in the nation might require a 25 percent down payment.

Between 1967 and 1975, annual mortgage payments required to purchase a standard home and a typical conventional mortgage increased from \$1,460 to \$3,180 or by 120 percent. Property tax payments grew from \$370 to \$640. Fuel and utility costs grew by much the same amount, under the influence of the energy crisis. The bottom line tells the story: in 1967, a household could buy into an average new home for \$2,430 per year. By 1975, this same home would cost \$4,900, over twice as much.

Of course, the costs of everything have been increasing recently, as have households' incomes. To be meaningful, housing costs must be measured relative to household purchasing power. The table describes trends in monthly costs of new housing as a percent of median household income in the nation as a whole. The problem is clear. Focusing on the before-tax annual costs of owning a new home, in 1967 and 1968 a household earning the median income would have had to pay out one-third of its gross income in order to own and manage a typical new home. Inflation and the resulting high interest rates upped this figure to 36 percent during the period 1969-1972. Since then, housing costs have outstripped income growth by a substantial margin. By 1975, a typical household would have to have paid about 42 percent of its

TABLE 6

ESTIMATED AVERAGE
ANNUAL COSTS OF OWNING A STANDARD 1967-TYPE NEW ONE-FAMILY HOME:^a

1967-1975

Year	Annual Costs of Owning and Managing the Home			Annual Costs as a Percent of Median Household Income	
	Dollars per year	Percent Change from Previous Years	Percent Change From 1967	Gross Costs Before Homeownership Deductions	Housing Costs After Homeownership Deductions ^b
1967	2,430	-	-	34	29
1968	2,630	8.2	8.2	34	29
1969	2,980	13.3	22.6	36	29
1970	3,165	6.2	30.2	36	30
1971	3,245	2.5	33.5	36	30
1972	3,485	7.4	43.4	36	30
1973	3,865	10.9	59.0	37	31
1974	4,470	15.7	84.0	40	33
1975	4,900	9.6	101.6	42	36
1976	5,290	8.0	117.7	NA	NA

^a For a definition of the characteristics of the Standard 1967-type home, see U.S. Bureau of the Census, Construction Reports, "Price Index of New One-Family Homes Sold," Second Quarter, 1973.

^b Assumes that the homeowner is in the 25 percent tax bracket, and is able to take full advantage of homeownership deductions for mortgage interest and property taxes. Mortgage interest payments were those paid in the first year of the mortgage.

monthly income in order to buy a new home. As shown in the table, income tax breaks offered homeowners did not offer much protection. In 1967, a homeowner in the 25 percent tax bracket able to fully deduct the costs of property taxes and interest would have received a net annual reduction in housing costs of \$380, or 16 percent. By 1975, the tax saving amounted to \$880, or 18 percent. After-tax housing costs would still have doubled over the eight year period.^{1/}

The Demand for Homeownership in the 70s

The precipitous inflation in the costs of new homes in the 70s collided with very rapid growth going on since 1970 in numbers of families looking to buy their first home.

Many observers of trends in housing costs have feared that inflation might spell a curtailment of homeownership, especially among young people.^{2/} In fact, housing inflation appears to have encouraged young families to buy into homeownership more rapidly and earlier in their life than they might otherwise have done. Since 1970, metropolitan homeownership has increased from 59.5 percent to 61.2 percent in 1975. This increase may appear slight, but is more meaningful when it is remembered that the rate of homeownership increased by only 0.6 percentage points in U.S. metropolitan areas during the entire decade of the 60's.

Between 1970 and 1973, numbers of owner-occupants increased by 2.9 million in metropolitan areas around the country. Between 1973 and 1975, numbers of metropolitan homeowners grew another 1.4 million, while numbers

^{1/} For a description and analysis of the favorable treatment of homeowners by income tax law in the U.S., see Franklin J. James, "Income Taxes, Homeownership and Urban Land Use," (A paper delivered at a joint session of the American Economic Association and the American Real Estate and Urban Economics Association, Atlantic City, N.J., September, 1976).

^{2/} For instance see Raymond J. Struyk, Urban Homeownership. (Lexington, Mass.: Lexington Books, 1976), Chapter 7.

of renters grew by only 500,000.

As shown in table 7, the key to understanding trends in urban homeownership lies in an enormous increase in the rate of owner-occupancy among husband-wife families. In recent years, husband-wife families, especially young husband-wife families, have bought into homeownership in massive numbers. In 1970, 69 percent of husband-wife families owned their own home. By 1975, 74 percent of these families owned their homes. Increases in rates of owner-occupancy were even more marked among young families. In relative terms, homeownership grew by 20 percent among husband-wife families headed by men under 25 years of age, and by 11 percent among families headed by men between 25 and 34 years of age.

The surprising increase in homeownership accompanying massive inflation in housing costs results in part from a sort of coincidence. Inflation in the costs of homeownership erupted at a time when literally millions of young families were poised on the edge of homeownership. Many leaped into homeownership in order to avoid being priced out of the "American Dreamhouse."

The reflection of these trends are apparent in the demographic profile of homeowners in central cities and suburbs. Between 1970 and 1975, almost two-thirds of the net growth in numbers of metropolitan homeowners has been concentrated in three groups of households.

- (1) husband-wife families headed by a man under 35 years old;
- (2) other non-elderly households with two or more members; and
- (3) one-person households.

These groups of households comprised only 31 percent of owner-occupants in metropolitan areas in 1970. By 1975, this had grown to 38 percent. The startlingly quick change in the characteristics of metropolitan homeowners was especially rapid in central cities, where these three demographic groups

Table 7

Household Characteristics
and Homeownership in Metropolitan Areas:
1970-1975

<u>Household Composition</u>	<u>Metropolitan Households by Type</u>				<u>Rates of Homeownership</u>		
	<u>Number</u>		<u>Change</u>		<u>(Percent)</u>		<u>Change</u>
	<u>1970</u>	<u>1975</u>	<u>Number</u> <u>(000s)</u>	<u>Percent</u>	<u>1970</u>	<u>1975</u>	<u>1970-1975</u>
Two or More Person Households	35,925	39,539	3,614	10.1	64.8	67.5	2.7
Husband-Wife Families	29,597	31,200	1,603	5.4	69.0	73.8	4.8
Under 25 Years	2,070	2,115	45	2.2	22.1	26.2	4.1
25-34 Years	6,366	7,338	972	15.3	55.3	61.3	6.0
35-44 Years	6,472	6,398	-74	-1.1	76.6	80.7	4.1
45-64 Years	11,164	11,464	300	2.7	79.5	85.1	5.6
65 or More Years	3,624	3,885	261	7.2	74.7	78.8	4.1
Other Male Heads	1,711	2,304	593	34.7	48.4	46.3	-2.1
Under 65 Years	1,424	2,008	584	41.0	44.8	42.8	-2.0
65 or More Years	287	295	8	2.8	66.2	69.8	3.6
Other Female Heads	4,616	6,035	1,419	30.7	44.0	42.8	-1.2
Under 65 Years	3,810	5,125	1,315	34.5	39.3	38.1	-1.2
65 or More Years	806	910	104	12.9	66.0	69.3	3.3
One Person Households	7,933	10,125	2,192	27.6	35.5	36.5	1.0
Under 65 Years	4,728	6,138	1,410	29.8	27.9	27.5	-0.4
65 or More Years	3,205	3,988	783	24.4	46.6	50.3	3.7
TOTAL, ALL HOUSEHOLDS	43,858	49,666	5,808	13.2	59.5	61.2	1.7

Source: U.S. Bureau of the Census, 1970 Census of Housing, Metropolitan Housing Characteristics: United States and Region, (HC(2)-1); and U.S. Bureau of the Census, Annual Housing Survey, Part C, "Financial Characteristics of the Housing Inventory," 1975.

comprised around 80 percent of net growth in number of owner-occupants between 1970 and 1975. These vigorous young homeowners have been a major force behind the revitalization of central city housing markets.

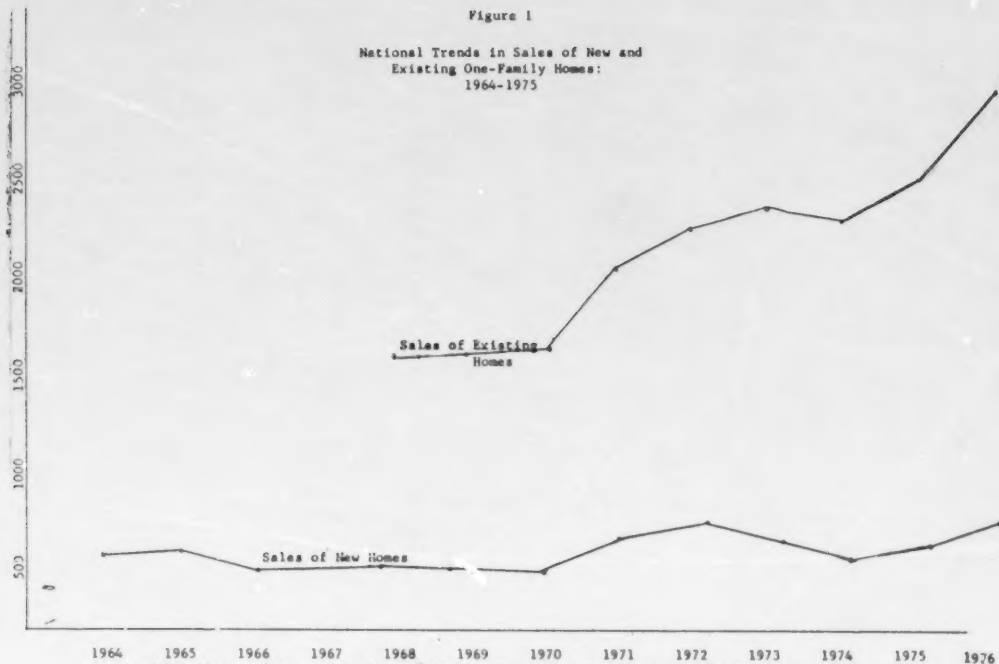
The Changing Role of the Existing Housing Stock

Signs of the collision of high costs of new homes with rapid growth in homeownership are everywhere. What has happened is that housing needs of homeowners are increasingly being satisfied within the existing housing stock.

Inflation in the costs of new homes has dictated that new homes serve the market for luxury housing. Many households, faced with the choice between modest new homes and older homes available in the existing housing stock, have decided that older housing is the better buy.

Some of the dimensions of this turnaround are clear and startling. Figure 1 describes national trends since 1968 in numbers of sales of existing homes as well as sales of new homes. In the late 60's sales of new one-family homes amounted to about 25 percent of total home sales. Shortly after inflation began to bite hard into the ability of households to afford new homes, home sales in the existing housing stock spurted upward, from 1.5 million per year in 1970, to 1.9 million in 1971, reaching almost 3.0 million in 1976. By contrast, 1976 sales of new homes were barely as high as in 1970.

This remarkable turnaround in patterns of home purchases has meant that inflation in the costs of building new homes has been translated immediately and completely into the existing housing stock. In the late 60's, the national average sales price of existing homes sold amounted to around 87 percent of the average prices of newly built 1967-type homes sold during the



Source National Association of Realtors "Existing Home Sales Monthly Report," Washington, D.C.: N.A.R.
Department of Economics and Research, August 1976; and U.S. Bureau of the Census, Construction Reports,
"One-Family Homes Sold and For Sale," Annual.

period. By the early 70s, average sales prices of existing homes were around 92 percent of the expected price of a standard new home and since have held about that level. The fact that more and more households have been priced out of new housing and forced to look for homes in the existing housing stock appears to have generated inflation in the values of existing housing even more rapidly than has occurred in new homes.

Back-to-the-City

The move into homeownership has been a powerful independent force encouraging the revitalization of neighborhoods offering one-family homes in cities. Many young renters committed to living in cities simply moved from one neighborhood to another when they decided to purchase a home. These new homeowners preferring city living would have contributed to the revitalization of neighborhoods offering one-family homes, even in the absence of inflationary pressure. Surveys of homebuyers in renovating neighborhoods in Washington show that most moved from some other home or apartment within the District. This was found to be true for two-thirds of the homebuyers in Capitol Hill. A survey of homebuyers in Mount Pleasant, another Washington neighborhood being rehabilitated, reported the same results.^{1/}

Inflationary pressures have intensified demand for older homes in central cities by forcing many homebuyers with limited economic means to stay in cities.

However, the fact is that recent pressures in metropolitan housing markets have injected new housing demand into cities. They have not by and large injected new residents. Perhaps the most striking aspect of the resurgence in demand for homes and homeownership in cities is that it

^{1/} Dennis E. Gale, "The Back-to-the-City Movement. . .Or is it?," op. cit.

rests largely on the move into homeownership of renters who already lived in cities, and on previous homeowners moving within cities, probably to upgrade their housing and neighborhood circumstances. Seventy percent of households who purchased homes in central cities in 1973 and 1974 were relocating within the same central city. Of these, two-thirds were renters moving into home ownership for the first time. An additional 13 percent of homebuyers were relocating from other central cities, or from non-metropolitan areas. Very few buyers were moving from suburbs. Only 11 percent of central city homebuyers were moving from the suburbs of the city.

Clearly, there is no evidence of a back to the city movement. It is much more apposite to view the revitalization of demand for homes in cities as the result of the changing housing needs and changing housing constraints on city residents.

FILTERING AND REINVESTMENT

One basic message that can be gleaned from recent events is that when new housing is unavailable at a reasonable price, older housing experiences rising demand and rising value. Because older housing is concentrated in central cities, a shortage of new housing means sizable demand for central city housing.

The crucial role of housing construction in excess of household growth, which can be termed replacement housing construction, in determining the value and maintenance of older housing is not surprising. It is part and parcel of one of the basic theories of how urban housing markets work to provide housing for lower income families: the so-called filtering theory. This theory states that when new housing is built and occupied, more often than not by relatively well-to-do families, the older housing vacated by these families "filters" or trickles down to provide good quality homes for lower income families. Following the theory, the worst, least desirable housing left vacant after this housing game of musical chairs is either abandoned or demolished and redeveloped.

Housing retirement is not a surgical operation. No invisible hand neatly excises substandard units from the housing stock. Rather, substandard units are retired only when they are judged substandard in the marketplace, i.e., when they aren't worth anything in cash terms. Thus, large scale retirement means the devaluation of the entire stock of existing housing. Housing maintenance falls with housing values, and the end result is deterioration, both of older housing and of older neighborhoods.

It is important to nail down the empirical linkage between new construction and the loss of older housing and neighborhoods. The role of new housing construction

can be illustrated quite simply by comparing levels and patterns of reinvestment in older housing in Atlanta and Washington. In many ways, the metropolitan areas are much alike. Both are wealthy, rapidly growing southern cities with vibrant central business districts, alive both during the day and during the night. Both are making apparently successful stabs at acquiring the cultural desiderata of older, more established cities of the North.

Similarities between the two cities disappear when one carefully examines the economic and physical condition of older housing in the two areas. Washington has become the symbol of the renaissance in the private preservation or renovation of older housing. Private renovation going on in the District is known nationwide. This activity is only a dramatic symptom of the very high level of reinvestment going on throughout the stock of older housing in the city and its suburbs.

Among major metropolitan areas in the U.S. during the 60s, Washington is unique in that older housing held its own in physical and economic terms. During the 60s, the values and rents of older housing increased more rapidly in Washington than in almost any other major metropolitan area in the country. Unpublished data from the 1970 Census of Housing suggests that housing abandonment was and remains almost non-existent in Washington. Available evidence suggests that the average physical condition of older housing did not deteriorate during the 60s. Demand for older housing was high throughout the 60s.

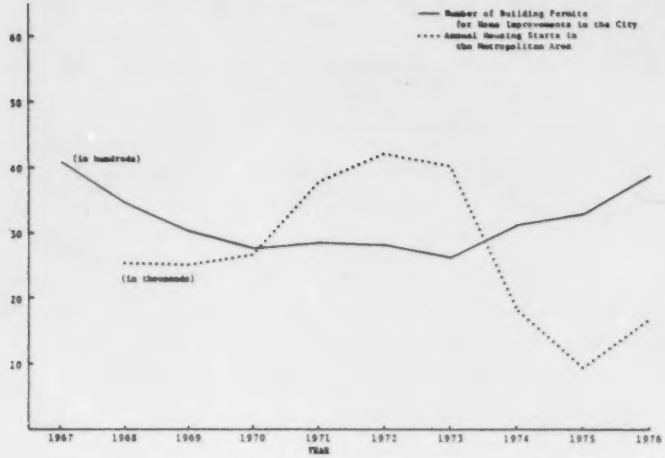
Atlanta can point with pride to a few dramatic instances of recent reclamation or preservation of historic commercial resources, as in Underground Atlanta, or verdant and conveniently located older neighborhoods, such as

Ansley Park. The facts are that during the 60s the housing stock of the metropolitan area which existed in 1960 was permitted to deteriorate rapidly in terms of structural condition. Values and rents of this older housing barely kept pace with the general price level during the decade. By 1970, 1.2 percent of the housing units in the metropolitan area were standing vacant in such deteriorated condition as to be classed as uninhabitable by the Census Bureau. The problems of older housing in Atlanta were not as bad as in St. Louis or Cleveland, but the problems of older housing were severe.

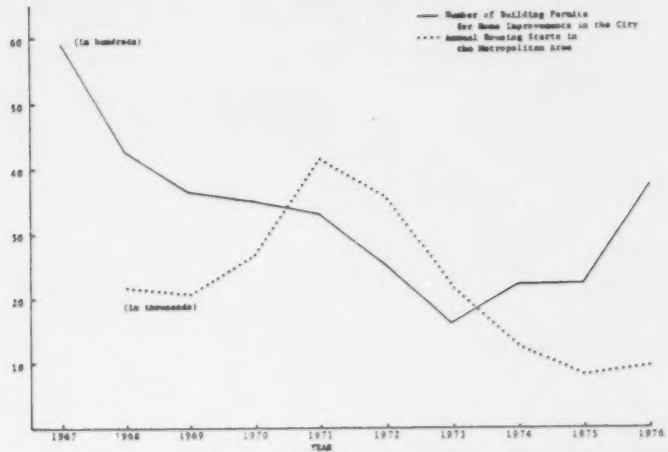
The main differentiating factor between the two cities appears to be in the cost and quantity of new housing construction. Of course, during the 60s, housing construction occurred at high levels in both regions, reflecting their rapid growth. Differences appear when housing construction is compared with household growth. During the 60s, replacement housing construction in the Washington metropolitan area amounted to approximately 10 percent of the initial stock of housing at the start of the decade. By contrast, replacement housing construction in Atlanta amounted to fully 21 percent of the initial 1960 housing stock.

During the 70s, the two cities have provided even more striking evidence of the role of new housing construction in influencing reinvestment in the existing housing stock. Figure 2 displays histories of new housing production as measured by housing starts in each metropolitan area during the period 1968 to 1976. The figure also displays a very rough measure of reinvestment in the existing housing stock of the two central cities. Numbers of building permits taken out in each city for residential alterations and additions were used to measure reinvestment. Permits are required only for home improvements, not for home repairs. Moreover, only a fraction of property owners take out a permit when they undertake home improvements. Despite these problems, permits provide a rough but useful guide.

Figure 2
METROPOLITAN NEW HOUSING PRODUCTION AND REINVESTMENT IN CENTRAL CITY HOUSING:
ATLANTA AND WASHINGTON IN THE 70s.
WASHINGTON, D.C.



ATLANTA



Source: Unpublished data from the U.S. Bureau of the Census, Construction Statistics Division and National Association of Homebuilders.

It is clear that new housing production reacted strongly in both regions to the building boom of the early 70s. In Washington, new housing starts accelerated from an annual level of around 25,000 units in 1969 and 1970 to around 40,000 units in 1971, 1972 and 1973, then abruptly fell to 10,000 units in 1975. In Atlanta, new housing production shot up from 20,000 units in 1968 and 1969 to over 40,000 units in 1971, then tailed off rapidly to fewer than 10,000 units in 1975 and 1976.

During the 70s, replacement housing construction remained at far higher levels in Atlanta than in Washington.^{1/} In 1971 alone new housing production exceeded household growth in the Atlanta region by 27,000 units. Replacement housing construction never reached this extraordinary level in Washington, despite the fact that the Washington region comprises over twice as many households as does Atlanta. Between 1970 and 1973, new housing production in Atlanta exceeded household growth by 60,000 housing units, or 14 percent of the housing units occupied in the region at the start of the decade. The comparable figure in the Washington region was only 15,000 units or 1.7 percent of the region's housing units in 1970.

Building permit data from Atlanta suggest that the massive level of new housing production in the region during the early 70s cut deeply into even the limited level of reinvestment experienced by the city's housing stock during the 60s. Numbers of building permits plummeted with the building boom, from

^{1/} For a description of growth patterns during the 70s in the two regions, see Appendix Table A-1.

almost 6000 in 1967, to 1600 in 1973. Moreover, the data also suggest that reinvestment jumped back quickly in response to the cutback in new construction following 1972, reaching 3700 in 1976.

Moreover, there are strong signs of the recent resurgence in reinvestment in neighborhoods of the city. In Atlanta, signs of private neighborhood revitalization are now widespread through the city, in modest neighborhoods such as Cabbagetown, in better housing such as that offered in Virginia Highlands, and in potentially very high quality homes such as exist in large numbers in Inman Park.

Building permit data from Washington suggest much the same trend in reinvestment as took place in Atlanta. In Washington, too, the evidence suggests a cutback in levels of reinvestment in the District's housing stock during the early 70s, and a strong resurgence following the collapse of new housing production in the region in 1973.

It is harder to observe this trend in neighborhoods of Washington, because demand for the existing housing has remained high during the entire period of the 70s. However, in recent years there does appear to have been an acceleration of restoration activity beyond areas such as Capitol Hill and Dupont Circle where restoration was proceeding rapidly in the 60s, into newer areas such as Mount Pleasant and Adams Morgan, and today affluent young renovators are moving into even the 14th Street corridor ripped by race riots in the late 60s.

ISSUES FOR NATIONAL POLICY

Recent years have made it clear that the nation's housing policy is also a de facto policy for urban development. As a corollary, national housing conditions dictate in large part the conditions in older central city neighborhoods. Forces which encourage new housing production cut into the viability of central city neighborhoods.

Unfortunately, both cheap, plentiful new housing and vibrant older neighborhoods in central cities are desirable goals. On a very limited scale, there is some possibility that this combination is feasible. Older neighborhoods offering uniquely attractive older housing or extraordinarily advantageous locations can and have been preserved in the face of general central city decline, as have neighborhoods inhabited by people dedicated to staying put and staying together. However, practiced on a large scale, the menu of plentiful new homes and viable older neighborhoods is indigestible. Some kind of balance must be structured by government policy makers. Difficult choices must be made.

Policy at Cross Purposes

One thing is clear. If no choice is made between conservation and the broad scale encouragement of new housing production and both goals are pursued simultaneously, the results are likely to be extremely wasteful. The national housing experience during the early 70s illustrates the costly waste resulting from uncoordinated attempts to combine large-scale new housing production with large-scale conservation of older housing. As the 60s drew to a close, the nation undertook major new initiatives to bring actual housing conditions of the nation's families in line with the goal of a decent home in a decent neighborhood for everybody, the poor as well as the rich. Major new federal programs set up in the Housing Act of 1968

produced a massive upsurge in both federally subsidized new housing construction and in federally subsidized housing rehabilitation. By 1970, over 425,000 new units were receiving direct federal subsidies. This amounted to more than one-in-five new units being built within the nation. Federally subsidized housing rehabilitation also grew apace. In 1972, 51,000 units were rehabilitated using federal subsidies. Federal rehabilitation programs were focused largely in central cities and funneled a great deal of money into the hands of central city homeowners and landlords. It appears that the federal government subsidized between eight and eleven percent of the total dollar volume of reinvestment in owner-occupied housing in central cities during the early 70's.

The evidence presented in Table 8 suggests that the enormous levels of new housing production encouraged by federal subsidies during these years cut deeply into private demand for the existing stock of owner-occupied housing in cities. Private unsubsidized reinvestment by central city homeowners fell more rapidly than federally subsidized reinvestment increased. Between 1969 and 1970, federally subsidized expenditures for the rehabilitation of owner-occupied homes in cities are estimated to have doubled, increasing by \$150 million (measured in constant 1973 dollars). In the same years, private unsubsidized reinvestment by central city homeowners fell by \$250 million, or ten percent.

It seems likely that the attempt to combine massive new housing production and large scale rehabilitation of the existing housing stock probably also cut into housing values in central cities, encouraging mortgage defaults and abandonment, and thus contributed to the crisis in federal housing policy which brought President Nixon's moratorium putting an end to many of the new housing programs which underlay the federal housing initiatives.

Table 8

Estimated Federally Subsidized and Private Unsubsidized Housing
Rehabilitation Expenditures Made on Owner-Occupied Housing
Units in Central Cities: 1968-1975

Year	Federally Subsidized Rehabilitation Expenditures ^a		Private Unsubsidized Expenditures		Federally Subsidized Expenditures As Percent of Total
	Current Dollars (millions)	Constant 1973 Dollars (millions)	Current Dollars (millions)	Constant 1973 Dollars (millions)	
1968	32	45	1,982	2,857	1.6
1969	124	159	1,984	2,547	5.9
1970	240	298	1,804	2,302	11.5
1971	184	217	1,834	2,238	8.8
1972	194	215	2,103	2,392	8.2
1973	148	148	2,587	2,586	5.4
1974	115	104	3,141	2,835	3.5
1975	85	70	4,049	3,347	2.0

^a Estimated as the sum of rehabilitation grants approved under Section 115, plus loans approved under Section 312 program, plus 40 percent of the values of home mortgages issued under the 235 (1) program for existing or refinanced construction. It was assumed that all these subsidized rehabilitation expenditures were devoted to homes in central cities.

Source: U.S. Department of Housing and Urban Development, 1975 Statistical Yearbook; and U.S. Bureau of the Census, Survey of Residential Alterations and Repairs.

Economic Forces and Conservation

A second thing also seems clear. Unless curtailed by national policy, private economic forces appear certain to continue to produce high levels of housing demand and reinvestment in central city housing.

Today and for the foreseeable future, private market forces in metropolitan areas seem likely to imply a continued reduced role of new housing production in meeting housing needs. The economic forces behind this trend appear likely to persist for some time. One recent study predicted actual housing production between 1975 and 1985 to amount to between 2.0 to 2.3 million units per year.^{1/} These estimates may well be on the high side. This study predicts that housing production aimed at upgrading housing and neighborhood standards will decline particularly rapidly due to high housing costs and limited incomes.^{2/} These trends imply continued high levels of private economic demand for older housing.

Similarly, the movement of the post-war generation into homeownership will persist for some time. According to projections by the U.S. Census Bureau, over half of the net national growth in the number of households between 1975 and 1980 will be headed by persons under the age of 35. As importantly, well over three-fourths of the net growth in numbers of young households is projected to be headed by a person between 25 and 34 years of age, the age group most commonly involved in purchasing their first home.

^{1/} Bernard Frieden and Arthur P. Solomon, The National Housing: 1975-1985 (Cambridge, Mass: Joint Center for Urban Studies, 1977).

These predictions are not entirely commensurate with the estimates of national housing needs promulgated by Congress. Since the time of the Kaiser Commission, many households have sought out mobile homes for the housing economies they offer. A large part of the predicted of housing production simply results from the typically short life of mobile homes and the intense need for replacement housing production they generate.

^{2/} Ibid.

During the 80s, household growth in this age group is projected to slow, but even so will comprise one-third of net household growth between 1980 and 1985.^{1/}

These new homeowners will continue to be a potential source of strength for central city housing markets.

Federalism and Conservation

A third fact should be considered as well. Right now the initiative in coming up with a conservation strategy is in local hands. Many local governments around the country have already embarked on new public policies encouraging the conservation of older housing and neighborhoods by offering improved public services and infrastructure at the neighborhood level. Disruptive public construction programs are more and more commonly being halted in the face of strenuous neighborhood protests. New visible capital facilities are being provided in neighborhoods across the country.^{2/} In addition, a multitude of local efforts have been mounted which directly encourage reinvestment in the existing housing stock, by enhancing the availability of money and credit for home purchases and home improvements.

Private market forces and these local public efforts pose problems as well as new potential for national policy. Local government are susceptible to forgetting the needs of poorer people when faced with the fiscal blandishment offered by affluent new homeowners. Local conservation efforts all too often underemphasize the needs of disadvantage people displaced in

^{1/} U.S. Bureau of the Census, Population Reports, "Projections of the Number of Households and Families: 1975 to 1990", Series P-25, No. 607, August 1975.

^{2/} Richard P. Nathan, et al., Block Grants for Community Development (Washington, D.C.: U.S. Department of Housing and Urban Development, January, 1977), Chapter 7.

revitalizing neighborhoods or suffering from high housing costs. Meeting these needs is likely to emerge as a major federal responsibility.

Appendix Table A-1

Comparison of Trends in Household Growth, Per Capita Income
and Housing Sales Prices in the Atlanta and
Washington, D.C. Metropolitan Areas

	Atlanta, Georgia	Washington, D.C.
Number of Households (000s)		
1970 ^a	429	899
1975 ^b	500	1050
Change		
Number	71	151
Percent	16.6	16.8
Mean Per Capita Income^c (dollars)		
1972	4400	5360
1974	5370	6410
Change		
Dollars	970	1050
Percent	22.0	19.6
Average Home Sales Prices^d (000s)		
New Homes		
1973	43.3	45.1
1975	54.2	53.5
Change		
Dollar	10.9	8.4
Percent	25.2	18.6
Existing Homes		
1973	37.9	45.4
1975	49.9	59.2
Change		
Dollar	12.0	13.8
Percent	31.7	30.4

^aSource: U.S. Bureau of the Census, 1970 Census of Housing.

^bEstimated from U.S. Bureau of the Census, Current Population Reports, "Population Estimates and Projections," Series P-25.

^cIbid.

^dNational Association of Homebuilders, Economic News Notes: Monthly Report

The CHAIRMAN. Thank you very much, Mr. James.
Mr. Kotler?

Mr. KOTLER. Thank you, Senator. I have a very brief statement.

On behalf of the National Association of Neighborhoods I want to thank you for holding these hearings on the displacement of long-time residents from neighborhoods through public and private investment for urban revitalization.

The NAN is basically in favor of the goal of urban revitalization and wishes to support the Government's aim. There are, however, a number of possible dangers which attend this program. These dangers threaten to distort the program's purpose and would result in very real damage to the poor, to low-income groups and, indeed, to the very nature of American society. The NAN joins you in the concern that the sudden influx of money to people in neighborhoods who are able to repay that money will cause the displacement of people who are not able to repay it.

From the beginning of American history, neighborhoods of diverse ages, races, and cultural backgrounds have contributed to the drive of the American people and its political development. The abilities of people of different backgrounds to learn from each other and remain united in communities, even after their incomes became differentiated, has been the mark of the peculiar American society.

However, this diversity did not always hold. With technological advances, income differences gradually separated people into different neighborhoods. This shows, one again, that technological progress is often attended by political decay.

It was the singular merit of the civil rights movement and the antipoverty programs in recent years to have once again brought together in the same neighborhoods people of different income and race. I am thinking of Adams-Morgan in Washington, Queens Village in Philadelphia, Capitol Hill in Denver, Mission District in San Francisco, and elsewhere. The diversity of these neighborhoods is now threatened by the present practice of revitalization. In other neighborhoods, hard won diversity has already been destroyed by a certain kind of public and private investment such as Brooklyn Heights, Society Hill in Philadelphia, and Hyde Park in Chicago.

Viewing changes in American Society from a historical perspective, it must be regarded as a sign of decadence when people begin to settle in economically differentiated neighborhoods. Such a settlement pattern denies the American genius of unity in diversity. It appears to be the special responsibility and opportunity for the Federal Government to serve, rather than weaken this unique American value, at a moment when the Federal Government is pouring money into the cities for revitalization. The Government should be sure that its role in urban revitalization does not contribute to the stratification of society. We must avoid a massive social catastrophe of the migration of millions of urban poor and low-income people into suburban and rural abandonment and decay.

Other witnesses have presented to you current data on the degree and extent of displacement. They have given you studies of displacement from a number of cities including New York, Philadelphia, and Washington. I want to add that citizens from several

cities met yesterday in a Peoples' Hearing to share their experiences and to focus public attention on the tragedy of displacement and the destruction of diverse neighborhood communities through the present type of urban investment, and I want to add, some of these citizens from Baltimore, Washington, Jersey City, New York, Hartford, and elsewhere are here in this room today.

I wish the political value of diversity were a self-evident truth. However, the fact is that diversity is viewed as a soft value in comparison with private investment, which is regarded as a hard, or primary value. Some experts point out that the economic upgrading of neighborhoods increases the tax base of our cities. This is true, but they go on to say that the increase of the tax base of a city will benefit low income and poor groups. This may not be true.

Experts also argue that the economic upgrading of our neighborhoods creates new housing stock. This is true. But they also say that the poor and low income groups will benefit from vacated older units. This may not be true because this older stock may be run down or far away from public transportation and social services as well as employment, and in most cases the older stock is simply too expensive.

This is the well-known trickle-down theory of social progress. And we all know that wealth does not trickle down to the poor. A dangerous side effect of this is that it leads to the presumption by the rich of their right of separateness from others. The abandoned poor follow suit and erect their own justifications for their isolation. Soon enough this means class separation, economic separation, and racial and ethnic separation. This kind of separation of society in our historical experience has led to the sharpest conflicts of groups against each other. Although conflict is often creative, this kind of conflict leads to groups surrounding themselves with insurmountable walls, and claiming that separateness is an end in itself. This conflict is a very real threat to the cohesiveness of our society.

The genius of America has been that as a Nation we see that society is an arduous process of the coming together of diverse groups and individuals into communities of thought and action. At moments of separation that verge on armed conflict, we have drawn on the American genius to once again unite different people in their diversity.

Even without urban revitalization, the Nation has been moving dangerously into separateness over the past decade. We are dividing into ethnic and economic groups at an alarming rate. This has been largely occurring as a reaction to the great challenge of diversity this country faced in the civil rights and antipoverty movements. Urban revitalization should not add to the momentum of this reaction, but should counterbalance this unfortunate development. If we go too far towards the separation of groups, some of these groups may experience the momentary joy of social familiarity but there will be a very real danger of war between groups.

If we continue to move toward diversity and carefully use Government to advance it, there will continue to be the arduous process of different people living together. Such communities will have to

wrestle with enormous problems and difficulties, but they will be held together in peace by their humanity, which only results when people make the commitment to live among those different from themselves.

While we realize the enormous difficulties that attend any effort to prevent the dislocation of long-time residents from their neighborhoods in the process of urban revitalization, we urge upon you to use the utmost care to preserve and advance American diversity within urban neighborhoods. It is necessary to make this effort because, in our judgement, the dislocation brought about by economic revitalization of our cities as we presently see it done could rival in magnitude the migration of Southern rural people into the cities during the 1940's, 1950's, and 1960's. If Eli Evans in his article in the New York Times of July 5 is right in relating the urban crises to southern roots, our judgment would be confirmed in a frightening fashion.

[Complete statement of Mr. Kotler follows:]

PREPARED STATEMENT OF MILTON KOTLER, EXECUTIVE DIRECTOR OF THE NATIONAL ASSOCIATION OF NEIGHBORHOODS

Senator Proxmire and Members of this Committee: On behalf of the National Association of Neighborhoods I want to thank you for holding these hearings on the displacement of long time residents from neighborhoods through public and private investment for urban revitalization.

The N.A.N. is basically in favor of the goal of urban revitalization and wishes to support the government's aim. There are, however, a number of possible dangers which attend this program. These dangers threaten to distort the program's purpose and would result in very real damage to the poor, to low income groups, and, indeed to the very nature of American Society. The N.A.N. joins you in the concern that the sudden influx of money to people in neighborhoods who are able to repay that money, will cause the displacement of people who are not able to repay it.

From the beginning of American history, neighborhoods of diverse ages, races and cultural backgrounds have contributed to the drive of the American people and its political development. The abilities of people of different backgrounds to learn from each other and remain united in communities, even after their incomes became differentiated, has been the mark of the peculiar American Society.

However, this diversity did not always hold. With technological advances, income differences gradually separated people into different neighborhoods. This shows, once again, that technological progress is often attended by political decay. It was the singular merit of the civil rights movement and the anti-poverty programs in recent years to have once again brought together in the same neighborhoods people of different income and race. I'm thinking of Adams-Morgan in Washington, Queen Village in Philadelphia, Capitol Hill in Denver, Mount Auburn in Cincinnati, Mission Hill in San Francisco, and elsewhere. The diversity of these neighborhoods is now threatened by the present practice of revitalization. In other neighborhoods, hard won diversity has already been destroyed by a certain kind of public and private investment, such as Brooklyn Heights, Society Hill in Philadelphia and Hyde Park in Chicago.

Viewing changes in American Society from a historical perspective, it must be regarded as a sign of decadence when people begin to settle in economically differentiated neighborhoods. Such a settlement pattern denies the American genius of unity in diversity. It appears to be the special responsibility and opportunity for the government to serve, rather than weaken this unique American value, at a moment when the Federal Government is pouring money into the cities for revitalization. The Government should be sure that its role in urban revitalization does not contribute to the stratification of society. We must avoid a massive social catastrophe of the migration of millions of urban poor and low income people into suburban and rural abandonment and decay.

Other witnesses have presented to you current data on the degree and extent of displacement. They have given you studies of displacement from a number of cities including New York, Philadelphia, and Washington. I want to add that citizens from several cities met yesterday in a Peoples' Hearing to share their experiences and to focus public attention on the tragedy of displacement and the destruction of diverse neighborhood communities through urban investment.

I wish the political value of diversity were a self-evident truth. However, the fact is that diversity is viewed as a soft value in comparison with private investment, which is regarded as a hard, or primary value. Some experts point out that the economic upgrading of neighborhoods increases the tax base of our cities. This is true, but they go on to say that the increase of the tax base of a city will benefit low income and poor groups. This may be not be true. Experts also argue that the economic upgrading of our neighborhoods creates new housing stock. This is true. But they also say that the poor and low income groups will benefit from vacated older units. This may not be true, because this older stock may be run down or far away from public transportation and social services, and in most cases the older stock is simply too expensive.

This is the well-known trickle down theory of social progress. And we all know that wealth does not trickle down to the poor. A dangerous side effect of this is that it leads to the presumption by the rich of their right of separateness from others. The abandoned poor follow suit and erect their own justifications for their isolation. Soon enough this means class separation, economic separation, and racial and ethnic separation.

This kind of separation of society in our historical experience has led to the sharpest conflicts of groups against each other. Although conflict is often creative, this kind of conflict leads to groups surrounding themselves with insurmountable walls, and claiming that separateness is an end in itself. This conflict is a very real threat to the cohesiveness of our society.

The genius of America has been that as a Nation we see that society is an arduous process of the coming together of diverse groups and individuals into communities of thought and action. At moments of this separation that verge on armed conflict, we have drawn on the American genius to once again unite different people in their diversity.

Even without urban revitalization, the Nation has been moving dangerously into separateness over the past decade. We are dividing into ethnic and economic groups at an alarming rate. This has been largely occurring as a reaction to the great challenge of diversity this country faced in the civil rights and anti-poverty movements. Urban revitalization should not add to the momentum of this reaction, but should counter-balance this unfortunate development. If we go too far towards the separation of groups, some of these groups may experience the momentary joy of social familiarity but there will be a very real danger of a war between groups. If we continue to move toward diversity, and carefully use Government to advance it, there will continue to be the arduous process of different people living together. Such communities will have to wrestle with enormous problems and difficulties, but they will be held together in peace by their humanity.

While we realize the enormous difficulties that attend any effort to prevent the dislocation of long time residents from their neighborhoods in the process of urban revitalization, we urge upon you to use the utmost care to preserve and advance American diversity within urban neighborhoods. It is necessary to make this effort because, in our judgement, the dislocation brought about by economic revitalization of our cities as we presently see it done, could rival in magnitude the migration of rural people into the cities during the 40s, 50s, and 60s. If Eli Evans in his article in the N.Y. Times of July 5th is right in relating the urban crises to southern roots, our judgement would be confirmed in a frightening fashion.

Mr. HOLMAN. Thank you, again, for focusing attention on a basic and very important problem which has significant impact on our cities.

In the fall of 1976, after long discussion with members of our organization and with substantial concern about what was hap-

pening to the urban revitalization we were advocating, we began a study of housing rehabilitation in 43 cities across the country.

Our study has proceeded with the assistance of local officials, city planners, and the National Board of Realtors, the National Trust for Historical Preservation, of HUD regional officials, our locals and urban community groups.

I must say that one of the first things we observe here is the operation of an almost immutable law about what happens in urban areas. Those trends or programs which work for the benefit of some people in cities or metropolitan areas will more than likely further disadvantage the poor, the elderly and the minorities. It is for that reason that I have less patience than some with macro-economic studies of various kinds. "The natural workings of the marketplace" all too often result in the unnatural warping of the lives and possibilities of poor people.

We understand and agree with those hard-pressed mayors who are gratified as they see their downtown commercial districts revived and rebuilt, and what better icing on the cake than to have nearby deteriorated inner-city neighborhoods renovated and restored? This work is often done with the assistance of Federal funds and guarantees; the Federal Government is very much involved in the state of the cities. It is the Federal Government and it was the Federal Government which fueled the flight to the suburbs and the dissolution of the cities through subsidized highway construction and urban renewal, through the "benign neglect" which fostered tax inequities and redlining.

Now, that the poor and nonpoor are coming back to the cities, we are creating a new class of urban nomads. People have to do the best they can in living quarters which are in some cases smaller, meaner and even more expensive than those they are forced to abandon.

True, in Chicago, Oakland, St. Louis, and other cities, people are fighting against considerable odds to hold on to their psychic, physical, and financial investments in these neighborhoods, but you have to travel only within an eight-block radius of my office to see that, despite the fact that people have announced cities to be dead, these cities are coming back to life with significant difference in the color, the accents, and the economic class of the residents.

I would like to note that in terms of what Mr. Kotler was saying, we observe a growing polarization in some of the neighborhoods in which revitalization is occurring, and it seems to me that Government, whether State, Federal or local, should not and cannot ignore these new tensions.

One manifestation of increasing polarization is our finding that in Denver, Houston, Baltimore, there is growing community resistance to the expansion or designation of historic areas. This resistance can occur completely apart from the question of race. In Baltimore, for example, we are finding whites threatened by replacement by other whites who are objecting to historic designation of their neighborhood. Now the National Trust for the Historic Preservation is trying to design a new program which will deal with neighborhood conservation as well as historic preservation, which has come to be a fighting word in many areas.

The data on housing rehabilitation and resulting demographic change which comes from Census is not extremely helpful, for the reason that first of all, the Census questionnaires were not designed to track this phenomenon. There is also the problem of timing. The 1975 data comes from 1974, but what has been happening most significantly which began to occur with the past 6 to 7 years, has only gathered momentum in the past 3 to 4 years.

I want to distinguish between neighborhoods where there is a transition from marginal decline to marginal improvement and those neighborhoods where the early "pioneers" are being replaced by large-scale speculation, as in Washington, Philadelphia, Baltimore, Houston, and San Francisco. The rise of housing costs, increase in property taxation, dislocation of tenants and long-time homeowners is almost totally transforming the character of these neighborhoods, many of which were to some degree economically and racially mixed. In almost every case, it hurts if you are old, if you are a tenant, if you are a minority. In Washington, Philadelphia, New York, St. Louis, Atlanta, and New Orleans, where black middle-class as well as white middle-class people have been moving in, the transformation is not primarily racial. Income is the factor which is crucial. In that regard, what VA does and what FHA does in making mortgage decisions at the local level has a great deal to do with whether or not people who want to stay will have a right to stay.

We are not opposed to revitalizing. We raise the question, for whom are we revitalizing and for whom are we reinvesting?

Some States are working on this problem.

I agree with the gentleman who says the Federal Government ought to give bonuses and incentives to those States and communities attempting to use Federal programs in an imaginative, creative and ultimately a helpful way.

Many States have passed circuit breaker amendments to the State property tax laws, which allow those over 60 on a fixed income to pay only a portion of their property tax assessment.

The city of Wilmington has gone one step further by granting tax abatement of the first \$7,500 assessment.

At some point we have to look at the question of whether we must forever assume that we will live in a world in which the property tax is the basic fact from which all of our other decisions flow.

It's been commented on time after time how stupid it is to have a situation in which, if I live here and don't renovate or rehabilitate my house, my taxes stay the same and even drop. If you rehabilitate yours, your taxes go up.

There must be something that the Federal Government can do, working in conjunction with the States, and the regions, to look at the fact that in the city of Newark, 60 percent of the property is exempt from taxes, though much of that property uses Newark services—fire protection, police protection, garbage pickup—and much of it is owned by institutions which serve the whole region. That means that 40 percent of the property is taxed to support services for the entire city and to support institutions which benefit large numbers of non-Newark residents.

In the Sabine community of Houston, a neighborhood association has been formed in an attempt to discourage speculators and developers and they have been getting in touch with absentee landlords to offer rehabilitation services in exchange for agreements not to sell or raise rents appreciably for a set period of time. It seems to me a government which was able at one time to write handbooks showing people how to draw up restrictive covenants ought to be able to write handbooks that telling people how to deal with speculators, how to deal with conserving existing neighborhoods. It is on the local level that people can be most effective. I think of the young man we brought from down South in the 1970's, when those districts were supposed to desegregate. He's now working in the White House. He said, "The funny thing, the most powerful man, positive man, I met in Government was low down on the totem pole in HEW. As I have gone upward in Government, everybody has gotten weaker and weaker, until I get to the White House and now it seems you can't do anything."

It was through this young man that the 10 percent was created, which allowed some of the ESEP money to go to communities, to be used by student groups, rather than to people who had been forcing desegregation.

It seems to me, that something similar can be done in the area of housing rehabilitation and speculation. Intent to do harm is hard to prove but I think the critical question goes beyond this consideration. While I assume that there is a good deal of intentful, harmful action which has taken place which we can't prove, I think the kinds of questions the government and the private sector need to address are: can we find ways to provide options for less-affluent residents who would like to remain in their traditional neighborhoods, neighborhoods in Wilmington, Newark, Oakland and other cities. Can we provide a sound working basis for interaction between financial institutions, government, and neighborhood groups—not only in the Neighborhood Housing Services kind of operation, which is a very valuable small-scale model of what can be done and which insists on the notion that private sector capital is best for the poor and the middle income. Where displacement is likely to occur is it possible to carry out rational and humane relocation, rather than settling for new ghettos; and, the question you have raised, must renovated central city neighborhoods become more homogenized, or is multi-racial and economic coexistence possible?

A week or so ago, the director of one of our local coalitions called to tell me that in one of the embattled neighborhoods where this kind of renovation is taking place, a white family had purchased at fairly low cost a home which they had rehabilitated at pretty significant cost. The night or two before they were to move in, the house was firebombed.

If you lived, as I lived for years in the South, you would be familiar with what was once the pattern—when blacks moved into urban or suburban neighborhoods where no blacks had lived before, strange accidents began to occur just before they moved in.

It seems to me, and to us at the National Urban Coalition, that government, the private sector, and citizens' groups ought to be seeking better answers than that one.

The solution we choose may have a good deal to do with not only whether we have central cities in the future but what kind of cities they become.

[Complete statement of Mr. Holman follows:]

PREPARED STATEMENT OF CARL HOLMAN, PRESIDENT, NATIONAL URBAN COALITION

Chairman Proxmire and members of the Senate Banking Committee, I am Carl Holman, president of the National Urban Coalition. I am grateful for the opportunity to appear before this committee, the birthplace in recent Congresses of landmark urban legislation, to testify on the increasingly critical problem of "displacement" in our reviving central city neighborhoods.

Back in 1973, during a particularly bleak period for cities, the National Urban Coalition convened a national conference on what then seemed the almost laughable notion of revitalizing America's cities. Needless to say much of the advice from the 3,000 participants was pretty generally ignored, including a suggestion that a genuine homesteading program with subsidies, more flexible financing arrangements by private lenders, counselling, and other supports might stabilize many central city neighborhoods and halt abandonment and disinvestment. A few months later Antonio Pantoja of our board suggested that the time would come when some of our supposedly hopeless urban neighborhoods would be reclaimed—except that the income levels, skin color and accents of the residents would be different. Over the next few years, our local urban coalitions began reporting that, despite the middle class out-migration trends recorded by census analysts and urbanologists, their communities were beginning to experience filtering back of middle income buyers and renters of remodeled houses and apartments who were pushing out those who could no longer afford to stay in their old neighborhoods. In fall of 1976 the coalition began a study of displacement in cities across the country and the operation of what seems almost an immutable law of urban life: that even those programs or trends which may seem to work for the benefit of others in cities or metropolitan areas will more than likely further disadvantage the poor, minorities, and the elderly.

Who can deny any hard pressed mayor his feeling of gratification as he sees his downtown commercial district being revived and rebuilt? And what better icing on the cake than to have crumbling neighborhoods renovated and "restored"—often with the assistance of Federal funds and guarantees—by middle income families or single people whose taxes will bolster his city's revenue base? It may indeed be that, except for a few cities like Washington, the return or the retention of the middle class as central city residents may not yet be—nor ever be—a floodtide. Nonetheless, the hard fact is that the so-called natural forces of the market place have a way of cruelly warping the lives of poor, elderly, minority and working class renters and home owners. Whether it be the original federally-fueled flight to the suburbs, urban renewal, highway-freeway construction, redlining or the new revitalization movement which is retaining or bringing back the non-poor to the central city—the end result appears inevitably to be the same. What benefits others casts adrift the same luckless people to seek as best they can living quarters that are generally smaller, meaner and often more expensive than those from which they were uprooted. A new class of urban nomads is being created. They do not want to move, but move they must because they can no longer afford or sustain their claims to housing in the older neighborhoods. Others—including some in this city, in Baltimore, in Chicago, in Oakland, in St. Louis—are fighting against considerable odds to hold on to their psychic, physical, and financial investments in these neighborhoods.

As president of a national organization devoted to the improvement of the quality of urban life, I find myself in the peculiar and unenviable position of applauding the revitalization of our neighborhoods—which brings promise of renewed economic viability and a new sense of dynamism to our cities—while watching with dismay as this very process results in the forcible removal of a growing number of units from the housing stock inhabited by long-time urban residents, particularly tenants, the poor, and the elderly. In neighborhoods undergoing revitalization, these people are caught between the vise of middle-income renovated areas and the staunchly middle-income suburbs. I believe

that we stand on the threshold of a demographic movement whose effect (if allowed to continue to occur essentially within the free market without the attention of public policy) may well result in the economic re-segregation and the "suburbanization" of our cities.

It is an indication of the newness and of the rapid expansion of the neighborhood revitalization movement, that there is currently a significant amount of debate over the nature of this phenomenon. There are those who insist that the "back to the city" movement does not exist, and who quote as proof recent census statistics which indicate that the rate of out-migration from metropolitan areas was higher in 1975-76 than it was between 1970 and 1975. On the other hand, however, there are those community activists in neighborhoods under significant renovation pressure, who daily witness the transformation of block after block of their housing and for whom the "back to the city" movement poses a threat to the social fabric of their established inner-city neighborhoods.

In the case of this movement, the truth does not lie "somewhere in the middle." The truth is that today the extent of the neighborhood revitalization/"return to the city" movement is basically an uncharted phenomenon with little in the way of hard factual data. Furthermore, the Census Bureau acknowledges that its national population survey questionnaire is not designed to monitor this movement, and that without policy change, even in 1982 when we have the first results of the 1980 census, there will be almost no national data available to analyze this movement. One of the most elusive statistics—yet crucial to the current debate—is the extent and impact of private market renovation activity.

Even without national statistics, which would help to eliminate many of the speculative aspects of the current discussion, there is a growing awareness on the part of local governments, some national organizations, and increasingly the media (and now congress itself with these hearings) that something is occurring in many of the Nation's cities which has significant policy implications. There is general agreement, that over the past five or six years an increasing number of homeowners have tended to buy in the older sections of urban areas, especially those with historic designation, rather than in the suburbs. What is unknown, and generally unagreed upon, is the scale, rate, cost and social implications of this movement.

The debate over the social implications of private market neighborhood revitalization tends to focus on the question of "dislocation." The growing contention of many community groups and some elected officials is that the restoration movement is fostering dislocation and is transforming heterogeneous central city neighborhoods, with a variety of incomes, age levels, and occupations, into sanitized blocks of middle to upper income professionals with a basic similarity of occupations and lifestyles.

In an effort to achieve a greater understanding of this phenomenon which carries such implications for residents of central cities, the National Urban Coalition undertook in the autumn of 1976 to design a survey to focus upon the questions of private market neighborhood revitalization, housing restoration, and dislocation. The assumptions which underlay this study are the following:

(A) There is currently significant renovation occurring in central cities throughout the Nation;

(B) That the neighborhood preservation and conservation movement will gain in momentum;

(C) That the housing restoration movement in the older areas of our cities has attendant social implications for original neighborhood residents;

(D) That this phenomenon is occurring essentially within the free market without the encouragement, intervention, or even attention of public policy.

The goal of our survey is to establish for the first time a profile of trends across the Nation (based on specific case studies, not on random samples and regression analysis) of the scale, rate, cost, and social implications of the neighborhood revitalization movement; to discover if, in fact, this restoration movement is fostering "dislocation" and therefore posing a threat to the social fabric of established inner-city neighborhoods; and, finally, to help identify those urban areas in which there is a need for public policy intervention to preserve valuable and threatened components of urban neighborhood life.

The study was designed to deal with the questions of identification of specific neighborhoods undergoing renovation: those with historic designation; the numbers and types of residential structures within the area of renovation; the rate of renovation; the prices of un-renovated vs. renovated structures; the ease of financing; and perhaps most importantly, the social, economic, and racial characteristics of those moving in and of those moving out.

Since so little of this revitalization phenomenon is actually documented, we felt it important that many different perspectives be brought to bear on each neighborhood surveyed. Therefore, in each of the 43 cities studied, we have requested responses from our local coalitions, city planners, local boards of realtors and realists, neighborhood housing service staff, and regional HUD officials. The 43 cities chosen were those in which the National Urban Coalition is linked either through affiliates or associates, or because of cooperative programs or advocacy relations. It is therefore not a representative sample of all American cities, but rather a set of case studies of those urban areas with which we have been traditionally most concerned. Nonetheless, the 43 cities surveyed include some of the largest cities in America—New York, Chicago, Los Angeles, Philadelphia, Detroit—as well as some of the smallest. They are located in various regions of the country: the east and west coasts, the Sun-belt States and the industrialized Midwest.

Atlanta, Baltimore, Bridgeport, District of Columbia, Montclair, New Bedford, New Orleans, New York, Newark, Newburgh, Philadelphia, Pittsfield, Richmond, Westchester County (Mount Vernon, New Rochelle, White Plains, Yonkers), Wilmington, Chicago, Cleveland, Columbus, Detroit, Flint, Gary, Minneapolis, Racine, St. Louis, St. Paul, South Bend, Indianapolis, Albuquerque, Denver, El Paso, Houston, Los Angeles, Oakland, Pasadena, San Antonio, San Francisco, Seattle, Stanford Mid-Peninsula (Sunnyvale, Mountain View, Palo Alto, Redwood City).

The methodology we followed in administering this survey was a mail out, mail back technique. Such surveys, however, often have a relatively low and thus somewhat unreliable rate of response. In order to help counteract the built-in constraints of such a method, we designed the study to complement the publication of our recently published series titled "City Profiles: A Statistical Profile of Selected Cities" which presented economic, demographic and political analyses of these same 43 cities. Since we had already been in touch with the city planners and local officials of these cities in the research of this earlier publication, the response to our second request concerning housing restoration and neighborhood revitalization was encouragingly high and thus representative. The overall response rate from this category of respondents was 86 percent. The phone call follow up stage brought this rate up to the 95 percentile. The combined response rate from the other categories of respondents is currently a solid 51 percent. However, we are currently phoning many neighborhood groups in order to increase their representation.

The quality of responses is, of course, as important as the number. And we acknowledge that this survey in and of itself will not present the amount of hard factual data on the private market renovation phenomenon which is so necessary to definitive analysis. This type of national base line data will have to await the commitment of a Federal agency such as the Census Bureau or the Department of Housing and Urban Development. But the coalition survey has elicited a variety of educated opinions about each community studied. These perceptions are as vital as the facts both to the local climate in which neighborhood revitalization occurs, and to the political climate in which public policy options are considered and chosen. We submit that there is already a widely divergent sense about the ultimate effects of what is occurring in communities undergoing renovation, and that as the neighborhood revitalization movement gains momentum, this polarization of opinion will increase. We are concerned that as the need to establish sound public policy in this field becomes increasingly urgent, certain level-headed judgments be made before this issue becomes bitterly politicized. We are hopeful that our findings, and those of these congressional hearings, will provide the preliminary basis for policy discussions.

Since the final analysis of our data has just begun, what follows must be considered as preliminary findings which may change in a later and more complete report.

EXTENT OF RENOVATION ACTIVITY

Cities, like individuals, have their own unique set of fingerprints. The picture of housing renovation differs as markedly from one city to another as do the cities themselves. What we do find, however, given the differences in local housing markets and local migration patterns, is that the phenomenon of housing rehabilitation is widespread, regardless of city size or geographic location. The scale of this movement varies. In some of the larger cities we surveyed—San Francisco, New Orleans, Atlanta, Washington, D.C., Denver—the movement might be described as extensive and aggressive—where seven to ten neighborhoods at one time are at various stages in the revitalization process. But even in the smaller jurisdictions—Newburgh, New York for example, or Bridgeport, Connecticut—a few determined residents are spurring private reinvestment.

In Newburgh, a town with a population of approximately 25,000, there has occurred within the last eighteen months the restoration of about twenty-five residential and ten commercial structures due to the commitment of a Ms. Gwendolyn King, a mortgage bankers with Reliance Funding, and Brian Thompson, a private restorer.

In the same vein, the architect Victor Christ-Janer of Bridgeport, Connecticut (population 150,000), has succeeded in involving the Bridgeport's Savings Bank in the rehabilitation of the south end neighborhood, while carefully preserving the racial and economic mix of the area.

AREAS OF RENOVATION ACTIVITY

Renovation activity is occurring in many different kinds of neighborhoods. Certain categories have emerged in the cities we surveyed: proximity to downtown is one common attribute; historic designation is another—these two attributes are frequently related since older districts surround the earliest business sections. But other factors also seem to play a part in the unique formula which attracts reinvestment—sound housing stock, proximity to an area of physical beauty, proximity to other focal points of activity, such as a university. Large cities are noting active renovation in many neighborhoods at the same time.

Historic designation has been considered one of the crucial drawing points for private reinvestment. But one sample shows that in Atlanta, of the nine neighborhoods surveyed by our study, Grant Park*, Candler Park, Ansley Park*, Inman Park*, Little Five Points, Virginia Highland, Mid-Town*, Redford Pine, and West End* (* designated historic area), five had received historic designation. In Denver, of the five neighborhoods surveyed (Curtis Park*, Clements*, Five Points, Capitol Hill, and Northwest Denver), two had State and local historic designation, and nomination to the National Federal Register was pending. In Houston, of the four neighborhoods in our survey, Montrose, Heights, Sabine*, and City Hall*, two have made application for national registration.

We are mentioning these specific examples because in each we have noted a growing community resistance to the expansion of or the designation of historic areas. This recent resistance on the part of neighborhood groups to what has traditionally been considered a tool for protection is highly significant. In the Sabine community of Houston, residents cite speculation, increased property taxation, and dislocation as attendant results of historic designation. In Denver, the community known as Five Points, which is sandwiched between Clements and Curtis Park, is aggressively fighting the expansion of these historic districts into its neighborhood. The black businessmen of Five Points regard such designation as a socio-economic threat to the viability of their community. Closer to home, in Baltimore, the citizens of Union Square in southwest Baltimore, are testifying before the Baltimore City Council against the projected expansion of an adjacent historic site. "Don't let historical preservation eat up our neighborhood" shouts their flier. "Always, always, always, realize the links between commercial venture, tax incentive, historical preservation and speculation," it concludes.

We at the coalition believe that this new and growing resistance to historic designation is only one symptom of the growing community awareness that the increasing pace of neighborhood revitalization, if left within the free market system without public policy guidelines and protections, has the potential to

destroy rather than enhance existing central city neighborhoods. The national trust for historic preservation, sensitized to the increasing importance of this grass roots resistance, is in the process of designing a new program to deal with the questions of neighborhood conservation as well as historic preservation.

We feel that the trust for historic preservation has taken a necessary first step in acknowledging the grave social and economic problems posed by private reinvestment and we feel it is time for Congress and the administration to join not only in acknowledgement of these problems, but also in consideration of possible remedies.

CHRONOLOGY OF RENOVATION ACTIVITY

The span of time which renovation activity covers varies significantly from neighborhood to neighborhood, and from city to city. However, in almost no case did it begin more than six to seven years ago, and in most cases significant renovation began within the last three to four years. Our data reveal that it has been within this time period, that is, the last three to four years, that resale prices have begun to soar.

For instance, in Albuquerque, New Mexico, two communities, "Downtown" and "South Martinez Town" have attracted renovation interest within the last four years. Within the last twenty-four months the downtown area with its turn-of-the-century structures has become the "hottest" real estate area of the city. In Cleveland, on the other hand, the community of Ohio City began undergoing revitalization as early as 1970, while an adjoining neighborhood of Hough and Glenville did not begin experiencing housing renovation until 1973.

There are some few city neighborhoods like Georgetown, Society Hill in Philadelphia, and the Presidio area in San Francisco, which have been deemed desirable to upper middle class residents for decades. The renovation activity we are currently witnessing is not part of the same phenomenon which created the Georgetowns. It is new and its effects are widespread.

RATE OF RENOVATION

The rate of renovation is impossible to actually document, for most respondents were understandably reluctant to indicate precise numbers of restored units. However, the general and almost universal perception is that renovation activity is increasing "significantly." Both planners and realtors tended to characterize certain neighborhoods as "hot" areas, and the increasing pace of renovation is acutely perceived by neighborhood spokesmen.

The scale and pace of renovation are emerging as perhaps the most significant aspects of the neighborhood revitalization movement in terms of public policy implications. And it is here that important distinctions must be made. In those neighborhoods where small scale housing restoration means merely a transition from being regarded as marginally "downward" to marginally "upward", the concept of neighborhood revitalization is a popular one. However, in neighborhoods where early housing "pioneers" are being rapidly succeeded by large-scale speculation, as is occurring in many neighborhoods of Washington, D.C., Philadelphia, Baltimore, Houston and San Francisco, the rise of housing costs, the increasing property taxation, and the dislocation of tenants and long-time homeowners is totally transforming the current character of the community.

Where once it took five years or more to "turn around" a neighborhood, our survey reveals that in neighborhoods under significant renovation pressure, this may now be accomplished in twenty-four months or less.

An economic resegregation is taking place which is creating new islands of urban wealth and severely restricting the housing choices of many long-term urban residents. This phenomenon works against the stated Federal goal of encouraging "the reduction of the isolation of income groups within communities and geographical areas and the promotion of an increase in the diversity and vitality of neighborhoods . . ." through (title I, community development, sec. 101(C)). The question raised yesterday in these hearings by assistant Secretary Embry of what percentage of original low income residents should

be directly encouraged to remain in changing neighborhoods is a crucial one which goes to the heart of the public policy deliberations on this phenomenon.

Large-scale speculation puts pressure not only on the neighborhood undergoing renovation activity, but upon adjoining communities which receive the migration pressures from those who have been dislocated. Conservation strategies are necessary for both. Two examples of the dual impact of large-scale neighborhood revitalization are found here in Washington, D.C. As the Capitol Hill area attracted speculator and renovator interest, former residents of this area began moving into adjoining Prince George's County. Soon the migratory pressure was such that the county executive took steps to discourage apartment construction, to tax tenants, and to slow down the overall rate of county growth. Across the river, in Alexandria, as the eighteenth century row houses became fashionable, dislocated residents moved into public housing of nearby Fairfax County putting great pressure on the public facilities and services of this jurisdiction.

It is clear that the phenomenon of neighborhood revitalization, when it occurs on an extensive scale at an aggressive rate, has public policy implications for conservation on a regional basis.

CHANGES IN MARKET VALUE

Once a neighborhood begins to experience private reinvestment, the cost of housing begins to climb. This inflation touches rents as well as house prices, "shells" as well as renovated structures. Our survey information on the cost of single family dwellings bears strong testimony to this conclusion. In the Irish Channel neighborhood of New Orleans the market price of unrenovated houses ranged from \$15,000 to \$20,000 and the price of renovated houses from \$50,000 to \$100,000, according to one black realtor. In the West End neighborhood of Atlanta, unrenovated houses costing \$20,000 might sell for \$60,000 renovated, at three times the original cost. In Cleveland's Ohio City the cost of a \$12,000 to \$18,000 house jumped from \$30,000 to \$50,000 after renovation.

These price raises are sometimes modest—in Indianapolis unrenovated housing was \$10,000 to \$30,000 and renovated housing \$15,000 to \$35,000. And they are sometimes astronomical—the Mint Hill section of San Francisco where unrenovated houses could be bought for \$40,000 to \$50,000, saw prices for renovated structures skip from \$175,000 to \$225,000.

The rate of increase in the price of renovated houses is very much a function of what the local housing market will bear. But whatever the rate of increase, the fact that there is an increase plays a significant role in the resulting process of economic selection in which lower income residents give way to the more affluent.

DISLOCATION AND PATTERNS OF RESIDENTIAL TRANSITION

The characteristics of those who lived in neighborhoods before renovation began vary widely. Thus, there is no single model of neighborhood transition which applies validly to the multitude of neighborhoods currently being revitalized. However, there is one predominant characteristic of this phenomenon which must be singled out for discussion. The neighborhood revitalization movement is primarily the replacement of one socioeconomic class by another.

In almost every neighborhood surveyed in the national urban coalition study—with the significant exception of neighborhood housing services areas—the crucial difference between residents before and after renovation was their social and economic background. Race, age, family size, type of tenancy, may—and frequently do—correlate with socioeconomic class, but these factors are secondary. The classic kinds of replacement—from blue-collar to white-collar workers, from minority to nonminority, from renters to owners, from large families to small families, from the elderly to the young—all occur because of the simple dynamic of wealth. Whatever their actual origin, the new middle to upper income professionals bring with them the homogeneity of the suburbs. The neighborhoods which receive them lose significant diversity in the process.

Thus it is crucial, in the discussion of public policy options for neighborhood conservation, that participants not be led astray into the attractive but unproductive byways of discussing perhaps artificial stereotypes of "in-migrating suburbanites" and "racial push-out" symptoms. While it is true that in quite

a few cases minorities are being replaced by white professionals, it is equally true that in other cases white blue-collar workers are being displaced by whites of higher income.

For example, the predominant—but far from exclusive model—of residential replacement in the older eastern and southern cities of our survey, is that of a black to white transition. This is most graphically illustrated here in Washington, D.C., in Philadelphia, New York, St. Louis, and to some extent in Atlanta and New Orleans. But even in these cases, income not race is the crucial factor. For example, in Atlanta, two of the nine neighborhoods we surveyed differ sharply from the commonly assumed models of transition. In the west-end neighborhood, site of some of the most ornate construction of an earlier era, a racially mixed population of low and moderate income residents is being replaced by a racially mixed population of upper income professionals. On the other hand, the white lower income, semi-skilled population of Inman Park is being displaced by incoming white professionals, such as lawyers, architects, planners and doctors.

In the West, Midwest, and in some of the smaller cities undergoing renovation, the racial composition of the neighborhoods remains essentially unchanged, while the social and economic level is changed. For example, in Mountain View, California, younger, white families with incomes slightly below the median are replacing elderly white residents on fixed incomes. In the Ohio City community of Cleveland, a large population of tenants, semi-skilled whites and elderly, are being replaced by middle to upper income whites, often over forty years of age, who are moving back in from the suburbs now that their children are grown. And in Denver, in the Capitol Hill area, white homeowners are buying structures which once housed elderly white tenants and young couples with large families.

There are two categories of the urban population which have been most directly and most adversely impacted by large-scale neighborhood revitalization. These are the elderly, and those who rent. In case after case, city planners, local officials, realtors, and community activists report that large segments of their elderly population have moved out of communities undergoing renovation. Many of our reports indicate that large numbers of those over sixty-five have moved into designated housing for the elderly because soaring property assessments and taxes have seriously eroded their fixed incomes.

Equally defenseless before the economic selection process occurring in certain neighborhoods are those tenants who are subject to wholesale removal as certain blocks become fashionable. Often these are low-income, semi-skilled or unemployed workers with large families who have great difficulty in replacing their housing with comparable units at similar prices.

It is clear that in the discussion of the social and economic impact which accompanies renovation, these two categories of residents should receive special attention with remedies tailored to their specific needs.

The discussion of strategies for neighborhood conservation must begin with a series of careful distinctions which acknowledge the basic complexity of the issue at hand. It is important to identify the different problems posed by neighborhood revitalization for the long-term homeowner as opposed to the tenant. For remedies must be geared to the problem.

A careful and cautious distinction between the economic and racial aspects of dislocation will significantly advance the political feasibility of dealing with the problem in a non-inflammatory manner. From the point of view of impact on neighborhoods, it makes little difference if incoming residents are attracted from within the urban confines or are truly coming "Back to the City." If the issue is reinvestment and not neighborhood revitalization however, then it is important to know where the new homeowners/renovators are coming from. Some long-term residents are selling their unrenovated properties for what is to them a significant price and moving out of communities which no longer attract them. There is no dislocation in this type of transaction, and distinctions must be made between the "pull-out" and "push-out" factors inherent in neighborhood revitalization. Lastly, the question of scale and of rate of renovation is a principal one. It is simplistic to assert that reinvestment or revitalization is "a good thing." Moreover such statements inhibit careful scrutiny of the impact of reinvestment or revitalization. It is just such an impact, dependent, we would argue, on the rate and scale of revitalization, with which public

policy must concern itself. For the questions must be raised: "For whom are we revitalizing?", "for whom are we reinvesting?", and lastly, "what are the social, political and moral costs of free-market transfers which are transforming our urban communities?"

Many cities have already begun to evolve strategies for neighborhood conservation. In our survey we have begun to inventory those more imaginative and effective techniques which aid in the conservation of valuable and threatened components of urban neighborhood life. While a complete discussion of appropriate local and national strategies will have to await the publication of our second volume, we can indicate here several examples of existing local governmental policies designed to conserve neighborhoods.

Many States have recently passed circuit breaker amendments to the State property tax laws which allow those over 65 on a fixed income to pay only a portion of their property tax assessment. If many elderly are abandoning long-term residences in neighborhoods undergoing revitalization because of increasing tax burdens, then the first remedy would be passage of such circuit breaker provisions. The city of Wilmington has taken this concept one step further by granting their elderly homeowners a direct tax abatement on the first \$7,500 in assessed value because of appreciation due to renovation.

The monetary incentive of direct rebates is useful in those neighborhoods which are just beginning to feel the effects of speculator interest. One of the more exciting examples of a local program designed to stimulate neighborhood revitalization for current residents is that which is being carried out in the Iron bound section of East Newark. This community, almost exclusively populated by recent Portuguese and Spanish immigrants, is a high density, wood frame residential area in need of some restoration. The city of Newark, through its housing authority, created a system of rebates based on the value of improvements made. The homeowner applies for local financing for renovation purposes and submits his work plan to the city. If approved, the homeowner is eligible for a direct rebate of up to thirty percent of the value of the improvements. If the work is done by the homeowner himself, he may often receive more in rebates than expended for materials. While this program may not be suited for all neighborhoods, it does exemplify the benefits of locally tailored programs which mesh with community needs.

Several communities have become aware of the particular plight of tenants in communities undergoing renovation pressure. One of the more distinctive attempts at stabilizing a neighborhood for tenants under dislocation pressure is to be found in the Sabine community of Houston. A neighborhood association titled "The Old Sixth Ward Historical Association" has formed in an effort to help the community withstand the pressures of speculators and developers who have recently been attracted to their area. The association contacts absentee landlords, offering renovation services in return for agreements not to sell for a period of years, and not to raise rents appreciably during this period. It is too early in the history of this attempt to judge the eventual outcome: however, it is an indication of an approach which would encourage landlords to retain their properties in neighborhoods which suddenly become fashionable.

These examples of current local strategies are but a few of the many and varied techniques which could, should the public will be present, aid in the conservation of those small sites of urban dynamism called neighborhoods.

The head of a local urban coalition in an eastern city called the other day to share an ominous report from an embattled neighborhood there whose long term residents are steadily being replaced by more affluent newcomers. Only a few nights before one of the new families was about to move into its renovated home, somebody firebombed the house. Some of us recall only too vividly the use of similar tactics when blacks and other minorities moved into suburban or urban neighborhoods formerly reserved for middle income or wealthy whites.

There has to be a better answer than that. Or than the inadequate response of too many in Government or the private sector who seem in effect to be telling us that since more middle class homeowners in central cities is a long awaited blessing—it should be remembered that omelettes cannot be made without breaking eggs. Except that it is not eggs but people that are involved here—many of them—on whichever side—increasingly sure of the rightness of their cause, increasingly bitter and increasingly impatient.

The record to date seems to demonstrate that we can only make urban policy in this country incrementally—and even then only in response either to the

powerful or to a clearly perceived crisis. An examination of what is happening in scores of urban neighborhoods across the country suggests that some well focused public-private creativity in the short run might spare us in the long run the kind of crisis to which in the past we have reacted tardily and not too well.

Though intent to do harm is harder to prove than some of our jurists and journalists seem to think, the critical question in this area may go well beyond anybody's ability to prove malice, cupidity or delinquency on the part of any financial institution, landlord, developer, public official, resident or would be resident. Can we find ways of which one provided options for less affluent residents who would like to remain in these "transitional" neighborhoods? Do experiments like those in Pittsburgh, Philadelphia, Oakland, and other cities provide a sound working basis for the proposition that financial institutions and government can work with neighborhood groups on financing, technical assistance and counseling to provide sound housing and business loans to those who might otherwise be arbitrarily dismissed as bad risks because of where they are located, or other reasons? Where some displacement is likely to occur, is it possible to plan and carry out rational and humane relocation rather than settling for new ghettos and additional recruits for the sad army of the urban dispossessed?

The CHAIRMAN. Thank you. Mr. Weiler?

Mr. WEILER. Thank you very much, Senator.

I have been almost exclusively concerned with this issue for about 5 or 6 years. I am very appreciative of the fact that you are now giving it the national attention which it deserves. It is an issue which I think is going to be, in one form or another, with us for quite a long time.

I would like to base my remarks on my experience as a neighborhood leader. I am listed here as an academician; I am also the chairman of the Alliance for Neighborhood Government, but most of what I have known and seen comes from 5 years of working in neighborhoods.

Particularly Queen Village in Philadelphia. I don't claim that Queen Village is typical of all the neighborhoods but certainly it is typical of maybe one of four or five types that we have. Maybe that is one of the tasks for someone to work out, just a typology of what is happening in these neighborhoods.

I have outlined a number of things in my testimony, but in the last couple of days, just listening and discussing, I have detected some themes and undercurrents which I would like to address, on a conversational basis.

One thing I keep picking up is a great fear that we have to walk on eggshells because we are going to turn off this return to the city phenomenon which is now just beginning to blossom out. As a neighborhood leader I find about the only thing that stops developers is outright force. Once they smell a dollar to be made in these neighborhoods, you don't have to worry about disincentives. We fight off developers. We have them lined up three and four thick, waiting to come into our neighborhood. If we don't like one plan, we have—sometimes—we have a multitude of plans to choose from. In some ways it is a very luxurious situation.

The individual neighborhood, once it undergoes reinvestment, is caught up in economic forces which no one in the neighborhood can shut off. Maybe on the national level—and this is, of course, I suppose, a primary concern—there is perhaps an ability to turn it up or

turn it down, though I am very skeptical about that, too. I think this is the same force that gave us suburbia, turning now to the city, and the Federal Government just doesn't have the hold on the economy to turn it on or off. It does have one power to shape it perhaps, and to steer it. I think that is our main goal, to steer it in the public interest.

The individual neighborhood, if properly prepared and supported, also has the ability to shape reinvestment, and I think a well-organized, prepared neighborhood is probably the best-suited institution for giving us some preservation of the rights of the existing residents and for achieving diversity.

I was very pleased with Mr. Whiteside's testimony, which seems to really express this respect for what a neighborhood can do.

Another thing a lot of people now talk about—Milton Kotler also raised this—the cities are going to start finally getting the middle class back and get more taxes. What is interesting about this, if you look at the early renewal applications in 1949, 1950, you will find that the problem of cities then was defined as the loss of middle class; so that there is nothing new about this, at all.

The middle class is coming back. But a lot of people are saying, Oh, wow, they sort of dropped out of the sky; they are somehow suddenly coming back. But this has been the end goal of billions of dollars of Federal investment in building up downtown shopping centers and commercial revitalization. It shouldn't be a surprise at all. It's exactly what was anticipated as the solution to the urban crisis.

However, what was not anticipated is how to preserve some public interest, some diversity in this process; and that is what we are trying to deal with now.

Another thing that I have sometimes heard is that people and the neighborhoods will be improved by this reinvestment. First of all, I have seen examples of neighborhoods ruined by too much money and the wrong kind. The wrong kind of money and too much can ruin a neighborhood, just as much as disinvestment.

Crime does not necessarily decrease as people come back. In fact, the kind of people who come back in are often more susceptible to crime than the working class people in the neighborhood who have lived there all the years.

One thing, I don't want to be threatening that this is going to happen—I don't know—but I have seen some indications of some kind of displacement causes a kind of bitterness and resentment that could lead to violence.

In other words, the very kind of disincentive to reinvestment that everybody wants to avoid may result if we don't pay attention soon enough to the problem. Trying to ignore the problem may, in fact cause the disincentives to occur that we don't wish.

I think that the community development program from the neighborhood perspective offers some useful tools, but it needs a lot of strengthening up, especially given the leeway that cities have right now. The neighborhoods have to be plugged into community development as a partner.

There has to be something done about property taxes, and I would like to point out that the problem with property taxes is not

simply neighborhoods fixing up the houses. The problem is when the neighborhood becomes desirable, because it's a center city location, the taxes go up regardless of what people do. So they can be doing nothing and the taxes go up several hundred percent. That has been our experience in Queen Village.

Something I have heard also is that this problem needs a lot of money, or the reinvestment phenomenon needs a lot of money, especially public money. Again, that could be just the worst thing for a neighborhood—to have too much money thrown in.

One thing that would really be important—this is what we have tried in our use of community development funds in Queen Village—is to get ahead of reinvestment, to try and put those loans and grants for rehab in several blocks ahead of where the speculators are moving. And this should be a strategy that is part of public as well as private reinvestment; whatever the Federal Government can do to disperse reinvestment would greatly moderate all the side effects when reinvestment tends to bunch up. It's the bunching up process, where reinvestment rolls through one block at a time, that really generates half of the problems we are discussing. If we could somehow disperse the reinvestment—just incentives to disperse—it would solve some of the problems.

These are some of the many things that can be done on this issue and I am sure we will all develop these as time goes on.

I will stop my remarks there in the interest of brevity.

[Complete statement of Mr. Weiler follows:]

STATEMENT OF CONRAD WEILER, PRESIDENT, QUEEN VILLAGE NEIGHBORS ASSOCIATION, PHILADELPHIA, PA., AND ASSOCIATE PROFESSOR, DEPARTMENT OF POLITICAL SCIENCE, TEMPLE UNIVERSITY, PHILADELPHIA, PA.

Senator Proxmire, members of the Subcommittee, thank you very much for the opportunity to testify to you on the important issue of displacement of existing residents from neighborhoods undergoing reinvestment. As you know, I have been concerned about this issue for several years, and am most happy to see this committee give it the National attention it needs. In the five or six years since I first realized what is happening and what could happen in our cities as the upper and middle income reinvestment occurs, I have dealt with this issue as best I could as a neighborhood leader in my own neighborhood of Queen Village in Philadelphia and on a city-wide and National level as an academician and as Chairman of the Alliance for Neighborhood Government, from which latter position I am temporarily on leave.

Over the years I have engaged in many discussions of this issue—particularly this year, now that it is being recognized as an issue—and I would like today to raise some of the most important points that recur again and again, and discuss them from the standpoint of my own experience and observations.

At this point I might briefly describe Queen Village. Settled originally in the early 1600's by the Dutch and the Swedes, the Area now called Queen Village was an incorporated township known as Southwark from 1757 until it's annexation by Philadelphia in 1854. Queen Village lies along the Delaware River just to the South of Society Hill, a well known showpiece restoration project of the late 1950's and 1960's, where many of our residents used to live until they were forced out. Perhaps the fact that many residents of Queen Village have been dealing with economic dislocation for twenty years makes them skeptical of developers and the benefits of "progress." The population is about 7000 mostly blue collar homeowners and tenants many of whom work on the waterfront, about 4500 of whom are white. Of the Whites, over half are still older residents, primarily of Russian, Polish, Ukrainian and Italian ancestry. About half the Black population live in three high rise public housing towers built in the late 1950's. But many of the other Blacks are long-term resident homeowners.

The area has many historic houses, and the nearness to Center City, and the fact that much of the neighborhood had never declined, attracted the first developers and middle income newcomers in the early 1960's. But not until the early 1970's did the neighborhood begin to be inundated with development. In 1971 residents fought and defeated a proposed crosstown expressway that would have cut South Philadelphia off from Center City and then fought again and defeated in 1974 a proposal for four ramps from I-95 into the little streets of Queen Village. These victories, plus the obvious success of Society Hill, plus the sudden increase in city neighborhood living by younger professionals, have sparked a tremendous interest in living and investing in Queen Village.

Our neighborhood is now listed separately in the Philadelphia Real Estate pages, and much referred to and written about as a good neighborhood.

While the attention has been flattering and many of the changes have been good, many problems have come our way also. Real Estate tax assessments have skyrocketed and soon will force out lower income homeowners. Hundreds of tenants have been and will continue to be evicted. Children of the neighborhood must move away to purchase a home. Venal and arrogant developers sometimes take a quick profit at community expense, the streets are clogged with cars from new apartment dwellers, shoppers and tourists, there are a periodic rash of rapes and burglaries, there are occasional clashes between old and new residents, and there is a constant undercurrent of social and economic insecurity among many of the older residents.

For about four years, the Queen Village Neighbors Association, of which I am now President, has recognized that this onslaught of development is inevitable and has tried to shape it and influence it for the benefit primarily of the people already in the community. Let me now review some of the observations drawn from my personal experience in this process.

1. While there has been much concern expressed that we might discourage reinvestment by too much emphasis on dislocation, I would say that from the individual neighborhood perspective there is relatively little the average neighborhood can do today to encourage or discourage reinvestment in the long run. Whether portions or all of a neighborhood become a reinvestment area is generally the result of systemic factors based on the Region or nation as a whole. Critical among these factors appears to be location in or close to the downtown, or adjacent to a neighborhood already undergoing reinvestment. Critical also, and clearly beyond individual neighborhood influence, is the strength of the market for in-city housing. At present this market appears to be small but growing very rapidly.

The individual neighborhood stands before reinvestment in a similar situation to the small town in the path of suburban development. The small town, or the neighborhood can speed up or slow down development or reinvestment or guide and direct it when it begins, but it has little control over the basic trends. Thus, it may be well to inquire whether certain regional or National decisions or policies will encourage or discourage reinvestment—though even here I think there is little choice—but individual neighborhood policies can have little overall effect on reinvestment.

2. Neighborhoods can influence the speed and quality of reinvestment, especially to preserve diversity, if they prepare well, undertake the broadest possible range of activities, and receive adequate support and cooperation from other agencies. Under these conditions, neighborhoods are generally the best suited of all governmental and private institutions to guide reinvestment in the public interest.

In my personal experience virtually any issue that arises in the reinvesting neighborhood contains within it choices to benefit only the long term residents, only the newcomers, or both groups. The difficulty is in working through the one-sided but usually easier options to the more difficult and usually less "rational" solution benefitting both sides and, in effect, eliminating the lineup of conflict along new-old lines. Often the solution lies outside the immediate technical definition of the problem, and is based instead on conflicting underlying values. For example, the developer looks at an old house not in terms of social networks, evicted tenants or parking, but in terms of rising real estate values and his own profits, which he identifies with "progress." Older residents who want to live out their days in the home they occupy now see rising real estate values and property turnover as a disaster. Thus, in order to deal with

specific zoning issues in a constructive fashion, someone has to do something about property taxes, low rents, and off-street parking in a coherent and effective fashion. In some cases, there may be no grounds for compromise, and the neighborhood must have the courage to say "no" to the proposal, now matter how seductive and attractive it may be, and except that its decision, if fairly made, will be respected by governmental and other institutions.

Let us take zoning variances as an example of how a neighborhood can help to "fine-tune" reinvestment to protect diversity. As Zoning Committee Chairman in Queen Village over the last four and a half years, I have personally handled over 200 zoning variances during that period. The age and diversity of architecture and accumulation of a wide variety of uses in Queen Village over the centuries combined with the diversity of plans and ideas of new reinvestors produces an enormous volume of requests for zoning variances, and over the years these variances have a substantial cumulative effect on the social, economic and physical structure of the neighborhood.

When I took over as zoning chairman we instituted a policy of reviewing and taking a position before the Zoning Board of Appeals for or against all variances, no matter how seemingly insignificant or noncontroversial. We followed the additional policy of always holding a public meeting to discuss the variance and to hear both from the applicant and the nearby neighbors. At first these policies seemed needlessly time-consuming and often antagonistic. Many variances seemed to require no discussion because the issue was self-evident or insignificant. Architects, lawyers, bankers and developers sometimes resented what they regarded as irrelevant or uninformed questioning from longshoremen and housewives, and tried to make private "deals" with us or avoid the meeting altogether.

But as time went on people began to see results, and our reputation spread to the point where developers automatically come to us first, often times asking our advice before they even buy property in the neighborhood. Our policy of support as well as opposition and of reviewing all variances gradually gained us strength and respect. Our policy of public meetings brought out all the issues, no matter how painful, frequently uncovered hidden flaws or virtues in different proposals (often saving developers from their own mistakes), reduced rumors, after-the-fact criticism and resentment from residents, and generally helped to regularize and control the reinvestment process for the benefit of longer term residents as well as guaranteeing to everyone that any investment, new or old, will be protected from hidden or arbitrary changes in land use. Perhaps surprisingly, many of the new investors with whom we negotiated and fought before eventually coming to an agreement are now our staunchest supporters.

As one example of how to use variances to achieve a compromise beneficial to all, we once spent three months of meetings and phone calls trying to persuade a developer not to get a general commercial variance that would have allowed restaurants and nightclubs on the corner of a residential area, but instead to accept a highly specific list of uses reflecting community desires and needs. Chief of these was a general practice physician. We finally got an agreement, based partially on the likelihood that with our opposition the commercial variance would be defeated, and then worked on our part of the bargain by helping to find a general practice physician, who serves old and new residents alike and makes house calls on his bicycle.

In another case we were greatly relieved to see a metal stamping factory finally close down operations in the middle of a residential block. When shortly thereafter we learned of an application for another industrial usage, a ship chandlery, we were immediately opposed. As we went through the motions of our meeting, however, we began to think about what could go there if the variance was defeated, and we realized that only houses could go there, further burdening traffic and parking, and driving up assessments, or the factory would remain empty, a firetrap and danger to children. We took a second look at the ship chandlery, saw that it would not cause noises, odors or vibrations, would provide local jobs, and would keep the street busy during the day when most residents were away. We ended up working out an agreement with the owner on truck traffic and storage of dangerous materials and operation of machinery, and supported the variance, which was granted, to everyone's satisfaction.

3. Reinvestment in itself is neither good nor bad; too much money or the wrong kind can hurt a neighborhood as much as too little. For example, in

early 1974 a developer from Cherry Hill, a posh New Jersey suburb, showed up in Queen Village with plans for a seafood restaurant on a corner of a partially vacant block in a transitional area between residential and commercial uses. He immediately demolished two historic brick buildings, claiming they were an eyesore and that he was "improving" the area with the cinder block and stucco, modern building he began constructing. Although we were still favorably disposed to the restaurant idea, we began having doubts when we saw the tiny kitchen and huge bar being built and had further doubts about the murkiness of his financial backing. Soon we learned that the plans had changed and now we were to get a fancy nightclub. We immediately opposed this not only because it would generate traffic and noise (no parking facilities were planned) but also because we genuinely did not think the location would support a nightclub. After months of fighting over liquor licenses and entertainment permits, including a threat to my life and hints of political corruption and organized crime financing, the nightclub opened. It never did well, soon resorted to B-girls and possibly drug trafficking, and eventually closed. For two years now the building has sat there, with an asking price wildly unrealistic for any use that would succeed at that location, a useless, dangerous candidate for insurance arson. While from the viewpoint of economics this is just an example of a bad investment, from the neighborhood viewpoint it is a continual bad dream, and one that prior review of building permits and control over development rights with neighborhood input would have avoided altogether. Unrestricted or unsupervised reinvestment may be its own worst enemy.

4. The reinvestment process does not necessarily make the neighborhood safer, despite claims sometimes made by reinvestment boosters, often to justify dislocation of existing neighborhood residents. If the neighborhood was a reasonably stable, functioning community before reinvestment began, the reinvestment process may increase crime by: (a) disrupting the close social and economic networks that create safety by putting "eyes on the street" and support intervention or punishment of criminals; (b) attracting former suburbanites or other residents whose individualistic, open and often inattentive lifestyle invites rapists, burglars and other criminals, endangering the whole neighborhood; (c) installing conspicuously affluent newcomers in ill-protected apartments or homes, attracting criminals specializing in these locations; and (d) threatening or dislocating long-term residents whose anger and resentment may encourage a few individuals to seek revenge in crime and violence against newcomers. We have seen examples of all of these points in Queen Village.

5. In addition, increases in crime accompanying reinvestment will naturally increase the demand for police protection, which also debunks the frequently heard defense of reinvestment that it replaces a high service-demanding population with a low service need population. In my experience, young professionals demand much more in the way of public services than working class people. Where low and moderate income people may have felt powerless to get better services and not understood how to pressure bureaucracies, and, frankly, may have been content to take care of something themselves rather than go to the politicians or city officials about it, middle class newcomers bring an expectation of a high level of public services, and often the zeal of the reformer to improve everything. While it may be true that reinvestment may generate more tax revenues for cities, as its defenders are fond of pointing out, it does not necessarily follow that the increased taxes will mean more money to trickle down to the poor and needy. My experience growing up in suburbia taught me that the middle class is fully capable of eating up their own taxes in services and facilities for themselves, and I think it readily possible that reinvestment will increase the political class conflict in cities over scarce resources and their allocation. If the middle class did not generate a great demand for public services, why are so many suburbs increasingly raising taxes and approaching serious fiscal difficulties? Furthermore, as reinvestment proceeds, cities will lose census tracts and population and conditions that qualify them for various Federal and state grants, further adding to the competition for the additional tax revenues which reinvestment does generate.

6. The Community Development program can be a useful and valuable tool in promoting economically and racially diverse neighborhoods, but it is presently limited and somewhat ambiguous in its application. In Queen Village we have three programs under CD which so far work to benefit the older, lower and

moderate income residents primarily: loans and grants, site improvements, and subsidized rehab of abandoned buildings for sale to neighborhood residents who qualify. There are three ways in which these programs have been implemented to promote diversity: first, obviously, the grants and rehab buildings are only for moderate or low income persons. The site improvements and loans are for everybody owning property. Second, we started these programs in an area that had high homeownership but also some abandonment and blight, several blocks beyond the area of heavy reinvestment and rising property values. Third, we actively encourage long-term residents to take advantage of these programs, counsel them at every step of the way, investigate contractors' work before they are selected, hold regular public meetings to review the progress of these programs, and generally act as watchdog for the neighborhood. Sometimes we help a homeowner with additional problems uncovered in the course of servicing these programs.

The first five black and white homeowners to have rehabilitation of their homes through loans and grants have had no complaints about the quality or the cost of the work, and the area is visually improved primarily for the benefit of the existing residents, although newcomers are now beginning to reinvest in the area as well. The older residents have better living conditions and an incentive to remain in the area, where they are a vital stabilizing force. The biggest imponderable in all of this, however, is the property tax, which surely will now begin to go up to reflect the improvements and growing reinvestment in the area, and threaten all of our work. But more on this later.

But while we feel that we have been able to use part of CD to benefit our older and moderate income residents, we are becoming very wary of Sec. 8 allocations and other public funding for housing that does not go through a neighborhood review and input process. We had a bad experience last year with one developer who purchased a set of old houses for next to nothing years ago, then last year evicted the lower income tenants, secured a below-market interest rate mortgage from the Pennsylvania Housing Finance Agency, then quickly rehabbed the properties in poor quality work, providing no trash storage or parking facilities, and rented the apartments at top dollar prices. Our protests to the state agency were dismissed with the statement that it was the state's policy to help save the neighborhood by supporting those developers willing to take risks on inner city development! Now we fear that the same or a similar-minded developer will secure state or city Sec. 8 allocations to purchase more old buildings, evict the tenants, by-pass the neighborhood, rehab a shoddy product, then attract lower income persons from somewhere else to replace our former neighbors.

In addition, we have submitted to the City of Philadelphia a Community Development proposal calling on the city to use the CD program to compensate for the dislocative effects of the property tax, to impose some prior review and control over building permits and developmental rights, and to guarantee the neighborhood a formal role in the CD program. We have been told informally that the first two points are outside the scope of the existing Federal laws and administrative guidelines, and the third point is the subject of much discussion and no definite action. Nor do we have any guarantee of technical assistance, which is absolutely necessary for the neighborhood to play its vital role in guiding reinvestment in a balanced and fair fashion.

7. The biggest single threat to neighborhood stability and economic and racial diversity is the property tax, which directly pressures homeowners and indirectly threatens tenants. Many of our long-term residents are on fixed income or simply do not make a lot of money, but are not on welfare. They have maintained their homes in good condition for decades, often inheriting the house from their parents, who also maintained it in good condition, though perhaps without making any taxable improvements to it. For decades South Philadelphia row houses have sold in the range of \$8000 to \$12,000 or \$14,000 in good neighborhoods, depending upon size. Tax assessments were typically \$2000 or \$3000. But in the last three years the tax assessors, along with everyone else, have discovered Queen Village, and assessments are now skyrocketing often several hundred percent for several years in a row. While admittedly property values are skyrocketing also, the value increase is only realized to the homeowner when the house is sold, and many of our residents have no desire to sell now or in the future. To make things worse, assessors sometimes tell angry homeowners that if they don't like their increased taxes, they should

sell and move out. This, combined with more and more frequent solicitations by realtors and private individuals, and the other changes in the neighborhood, makes many oldtimers feel that there is a conspiracy to force them to move out—that someone wants their houses.

We have fought this problem in several ways. First, we help senior citizens fill out Pennsylvania senior citizen property tax rebate applications, for the small help this provides. Second, we organize appeals of the assessment increases. This year we had two lawyers, our state representative, and an expert real estate appraiser argue for 27 long term mostly fixed-income residents who had made no improvements to their properties before the Board of Revision of Taxes. All 27 appeals were rejected without explanation. Subsequently we filed appeals of that decision in Common Pleas Court, and are awaiting our hearing. Additionally, we are preparing a suit in Federal Court on the grounds that the property tax amounts to confiscation of property and violates the goals of the Community Development program to promote economically and racially diverse neighborhoods. Finally, we are working on legislation that would provide various means to overcome the dislocative effects of the property tax, but have little hope of it being passed in this time of state and local fiscal stringency without some support and encouragement from the Federal government.

In conclusion, these have been a few neighborhood level observations and examples of problems as well as opportunities for public action in the reinvestment-dislocation issue. Hopefully these remarks will have contributed to a clarification of certain oversimplifications and phony issues, and to a better understanding of the neighborhood role in the promotion and preservation of stable, economically and racially diverse neighborhoods in our cities. Thank you very much.

The CHAIRMAN. Thank you, sir.

I want to thank all of you gentlemen for your statements. They have been very, very helpful.

Mr. Kotler, I think you are the first witness in these hearings who has had an absolutely clear-cut value system that you establish, and that is it.

Maybe I misinterpret you. You are for diversity, with no ifs, ands or buts, and you think that ought to be a goal of this program.

Mr. KOTLER. Yes, sir.

The CHAIRMAN. I agree that that has a great deal of appeal. But I wonder if it should always be the principal goal.

You cite instances, one in Washington, Adams Morgan, one in Philadelphia, Queens Village, and you cite two or three others around the country. They seem to be failures.

I recall in the last campaign when President Carter made his ethnic purity statement, which he revised and apologized for, was embarrassed by, but it came down to the notion that you might have an ethnic community, black, Polish, whatever, that has a lot of pride in its distinction, and dignity—is not diverse, at least it's not diverse in an ethnic sense—may not be very diverse economically.

What is wrong with that? Why shouldn't that be—if the community is viable, if the community—if the people are able to develop—and after all, they are located in cities, where if they want different sorts of associations, they can have them available.

Mr. KOTLER. There is a certain pleasure in being among your own. That pleasure carried to an extreme results in a nation of separate groups, and all the evils that come with that.

The CHAIRMAN. Wait a minute. You said to an extreme. What do you mean by that?

Supposing you have a neighborhood which is predominantly Polish or predominantly black. You have both in Milwaukee, for

instance, and I think they would be improved if they were more diverse—no question in my mind about that.

But I wonder how diverse they should be, and how much emphasis we should put on that. As you know, this does raise some extremely difficult political problems, and provides some economic barriers from achieving the kind of good housing and good living that we would like to receive.

Mr. KOTLER. Senator, let me be as frank as I can be. People prefer to live as much as possible with their own kind. That is what people will do without Government encouragement. The question is, what kind of human choices should the Government encourage? I do not believe that the Government should encourage the tendency of people to live among themselves and separate from persons of different background. The Government has the difficult responsibility of always encouraging people to choose diversity. The Government should always preserve diversity where it exists, and to pursue it where it does not exist, rather than support people to choose ethnic separation, economic separation, or racial separation.

The CHAIRMAN. I understand that. I greatly respect how very strongly you feel about it, but shouldn't the Government—should the Government role be one of doing its best to fulfill the 1949 Housing Act, which provides a goal of safe, decent housing for every American, which we are far from, and do its best to prevent any kind of governmental action which tends to segregate people?

In addition, the 1974 act, we have a statement, we have an assertion, reduction of the isolation of income groups within communities and geographical areas, and promotion of the vitality of the neighborhoods shall be one of the goals, but it's a matter of putting all of these things into proper perspective.

You seem to make it as a primary goal, nothing else. If you achieve diversity, that is it. I wonder if that isn't a very important—but if it's not more important or just as important to get decent housing for all Americans, which we are so far from achieving.

Mr. KOTLER. I think the 1974 act represents a progress in its specific citation of diversity over the earlier act. Let me add, the difference between the 1949 and 1974 Housing Acts were the civil rights movement and the antipoverty movement, two incredible challenges that this country went through to achieve diversity. The diversity in the 1974 act did not come out of the blue. It came out of a hard-fought struggle. That is progress. We have to hold on to that against every force of reaction.

The CHAIRMAN. I wonder if we do what has been urged by the other witnesses, if we provide a much better opportunity than they would otherwise have for poor and low-income people to remain in the neighborhood as it improves, to stabilizing property taxes, to making it possible for them to buy their homes as other witnesses have urged, means of this kind, that will tend to preserve the diversity.

If, on Capitol Hill, for example, people who live in this area now, if they are able to remain, many of them, if they want to do so, and others move in, you are going to get a diverse neighborhood.

But I just wonder if in addition to that, you should follow on a policy that seems to make that as a number one overwhelming aim and value.

Mr. KOTLER. Unless we make diversity our No. 1 aim, diversity will not be achieved. If we make it No. 2, the desire to live among one's own kind will prevail, and diversity will never be achieved.

I do agree that many useful tools were mentioned here to favor diversity—tax reductions, low-interest mortgages, and other devices. But certain other suggestions were also made that would not assist that goal.

Furthermore, to rely on local initiatives and abandon a Federal policy as well as incentives on diversity would be solely a great mistake. Municipal governments want their tax money and they get that through increasing property taxes. There will be a force encouraging the rich and middle classes to come back, but if we tied block grants to diversity, we could build a federally directed action toward this No. 1 goal.

The CHAIRMAN. Dr. James, you argue that overbuilding in the suburbs could cause abandonment of the center cities. The problem is, in some areas there is a real housing shortage, while in others, there is excess housing, and new building should be discouraged in favor of rehab.

How can public policy on a Federal level accommodate these differences among housing market areas, to promote the right policy for each area? Should GNMA subsidized mortgages only be available in market areas where there are acute shortages?

Should each HAP plan require the entire metro area to get together on strategy, fine tune the things between new construction and rehab? What else can Federal policy do?

Mr. JAMES. I agree the HAP planning mechanism is certainly a promising approach in some metropolitan areas where local land use controls have restricted the supply of new housing, as in Washington, or where local governments have been remiss in encouraging construction of subsidized housing for low and moderate income families.

However, I think perhaps the Federal Government's most important role is not on the metropolitan level, it is establishing the national context, establishing the economic conditions for the Nation as a whole.

And I think while there is certainly a great deal of diversity among metropolitan areas, the national context is extraordinarily important to each one.

If the national Government encourages construction of housing, it will tend to occur in almost every area. If it discourages it, it will work the same way. It is a cumulative effect. If you add all the areas together, it's large.

The CHAIRMAN. Mr. Holman, one question nobody seems to be able to answer.

Where do people that are displaced go? Do they move into the inner city?

That seems doubtful, because in most cities, during the past decade, the population has not been increasing, it has been decreasing. If

they move, do they move into the suburbs, invade other lower class, lower middle class neighborhoods in the same cities? What do we know about that?

Mr. HOLMAN. We know less than we should. We do know for example, that the so-called new Southwest in which I live is a good example of how public policy can work with the private policy to give the facade of diversity while making certain it doesn't really occur.

Many of these people moved, as they generally do, to the nearest place they could, so they tended to move into the Southeast and sections of the Northwest. We know some of the people who were being removed from the Capitol Hill, for example, were moving into Prince Georges County and fringes thereof.

One of the ways we have of knowing—as the poor are moving into public housing there, county officials have begun to tighten up, trying to prevent this in-migration. This shows that at least if the governments don't know how to make positive things happen, they do know how to prevent what they are considering negative things from happening.

In St. Louis, where I grew up—and grew up strangely enough in a very mixed middle-low income, poor neighborhood, in which there were blacks, whites living in the same neighborhood, some Germans as well. You don't find these kinds of neighborhoods very much any more, certainly not in St. Louis.

A great deal of land, housing is abandoned there. We are finding a number of those people are in the worst properties. Some of the houses are already condemned, some almost, but not quite. They are in the northside ghetto. Except for that island that was created, the poor are being pushed into the unincorporated areas outside of St. Louis, a place called South Kinlock Park, for example.

The trend—because nobody has particularly known or cared, because this country has never had a real relocation policy. It is very difficult to track where some of these people have gone. That is one of the things we are trying to do here.

The CHAIRMAN. Very good. It is very helpful to find out about that. One of the first steps you can take, I think, in wholesome Government policy is to get the facts. We just do not know. We know these people have been pushed out. We have an instinct they have been hurt badly and abused, but we do not have the facts and figures on where.

Mr. WEILER. Senator, my neighborhood is right next to Society Hill, which was a showplace project in the early 1950's. My neighborhood is a second-generation reinvestment neighborhood. Hundreds of people in my neighborhood were dislocated from Society Hill. That is why we are fighting it now. We do not want it to happen a second or third or fourth time.

Our experience has been that people move nearby. The wealthier ones want to go to the suburbs.

The CHAIRMAN. In neighborhoods where there is substantial rehab activity and strong demand, many older homeowners are being forced out by rising tax assessments caused by sharply decreasing property values. Some cities have enacted, as Mr. Holman has

pointed out, circuit-breaker plans to protect lower income homeowners from sharp increases in property taxes.

Is there anything the Federal policy can do to encourage localities—

Mr. WEILER. There again, the CD block grant is a perfect vehicle to at least call attention to this. And perhaps you could say this is part of the coordination of local policies to deal with diversity. I think the CD block grant does require a city to look—to include in its applications efforts under that same city government which may be undermining or supporting the specific program goals.

I may be challenged on this by people at HUD, but I think the CD is one good way. Also a possibility is a Federal compensation, through income tax or something, or programs the municipalities through some kind of rebate program could take cognizance of this problem.

The CHAIRMAN. Dr. James, you contend one key cause of the situation is the slowdown in the suburbs. I live in the city because my wife likes the city, and does not like having to mow the lawn. I can get the same house for less money in the suburbs. Do you have any surveys that indicate how much of the move back to the city is economic and how much of it is a matter of changing pace?

Mr. JAMES. I think before I answer that question I would like to say something about the point raised earlier about displaced people. One thing to keep in mind with respect to a neighborhood like Capitol Hill, or Society Hill, or Mt. Pleasant, is that the bulk of the people purchasing homes in those neighborhoods are not moving from the suburbs. They are moving within the same city in which they are buying. Capitol Hill—

The CHAIRMAN. That is what Mr. Holman told us.

Mr. HOLMAN. I do not think that is the point. The point is where they come from.

Mr. JAMES. I am talking about where the buyers come from.

The CHAIRMAN. I misunderstood. I thought you meant where they went when they were forced out. The buyers come from the city?

Mr. JAMES. Right. The buyers are moving within the cities, in large part.

The CHAIRMAN. Are not a lot of the buyers people without kids, singles—married but childless couples, newly married, and live in the city anyway, new family formations?

Mr. JAMES. There is a very clear population profile of the affluent people that live in neighborhoods undergoing renovation, and you describe it perfectly. There is one other key point to make. It is extraordinarily common for home-buyers in renovated neighborhoods to be buying their first home, moving from an apartment into a home.

In a survey I took of Capitol Hill homebuyers, a small survey I would not give any particular statistical reliability to, about 80 percent of the buyers were buying their first home. What we are noting in the renovating neighborhoods is the effects new homeownership. There is no evidence that people value or prefer central city life more than they did in the past—

The CHAIRMAN. It is an economic factor. They are buying homes in the city because homes are available now in the city.

Mr. JAMES. There is a mixture. The movement to homeownership has been a very powerful force in creating these renovated neighborhoods. The economic forces, I think, if measured in terms of property values and that sort of thing are important among the types of people that buy in neighborhoods like Capitol Hill, where we are dealing with young buyers who value homes as much as an investment for their future as they do places to live. It is a very common pattern in a neighborhood like Capitol Hill.

The CHAIRMAN. Housing is a lot cheaper in Rockville, but the people seem to want to buy in the city. That cuts against economics. The city is where the action is. It has got a lot of appeal for people who like to be downtown, where they do not have to drive forever to go to the theater or have a restaurant that they enjoy.

Mr. JAMES. Certainly that is very important, and the people that live in the neighborhoods prefer city life. I think the high cost of the new housing, high demand for central-city housing certainly has not forced the affluent people to live in the central cities. They can afford housing out in the suburbs. For them it has created a new confidence in the economic returns of housing in the city as an investment. It has created rising property values which are directly very attractive to young, affluent home buyers, and I think it is very difficult to underestimate that confidence in central-city housing markets as an influence on their housing choices. In cities that are and continue to be beleaguered by housing abandonment, by stagnant or declining property values, there tends to be little revitalization by affluent people, even if the city offers attractive housing, attractive job opportunities and the like.

The reason is in some cases a lack of confidence. High costs of new homes in suburbs have affected a lot of groups directly. These costs have affected low-income groups that have less freedom to move to the suburbs, and moderate-income groups. It has affected even affluent people. But the way that it affects them is quite different. I think that has to be realized.

Mr. HOLMAN. I would just like to interject here, I think perhaps what sometimes occurs is . . . There is no doubt in my mind. I have had this happen to me twice. I have been on a television program in a city where people call in, and I have discussed the flight of the white middle class to the suburbs and their preferences, and on two occasions that bulk of the calls came from young whites who said they would prefer to live in the city, but could not get loans there.

My own staff includes a number of people who live in cities or who would like to live in the city, but some of them cannot afford—unless they triple up, three singles—getting a house in the city. I think that it is very important to remember that there are extremely strong barriers which still exist.

Those of us who have been fighting redlining, the great tendency sometimes is to believe that if you start the fight one year, three years from now you should have won the battle. That is not the case. There is a gentleman considered for a pretty important post in this town, and I think his bank used to make loans in the central city at the rate of about 2 percent. And now this share has risen to the staggering proportion of 5 percent.

I do not believe that we can deal with the problem of dislocation unless we factor in as best we can the mix of motives and the mix of realities which are involved in the whole situation.

The CHAIRMAN. What is the relationship in your view, Mr. Holman, between racial and economic factors and dislocation of people from restoration areas?

Mr. HOLMAN. I think the economic factor is stronger than the racial factor in many cases, if only because of what I know in some cases—middle class blacks are able to afford renovated homes. I have a friend who was offered a home for \$161,000 in the Dupont Circle area, who pointed out that his father and mother worked for 30 years to get him out of just that same kind of housing. The economic factors seem to be the strongest single ones we can find. Nonetheless, you can trace the difficulty for minorities, even when you are talking about getting rehabilitation loans. The difficulty for minorities continues to be stronger than the difficulty for nonminorities, especially if they are not extremely affluent minorities.

So both factors are there, but I would say that speculators, especially, in certain of these areas, sell to those who will pay the price, and they are getting less finicky about the color.

If you are at the lower moderate income edge, your race—

The CHAIRMAN. That is progress of some kind. Are the cities more concerned about attracting the middle class to boost their tax rate?

Mr. HOLMAN: It is still true. I wouldn't agree totally with what one person said, that the downtown commercial development was intended to bring middle class people back to the cities. It was certainly clear that the people who built some of these downtown developments were much more interested in attracting conventions and attracting tourist trade and attracting the 8-hour day office worker, than they were in bringing middle class people back to live in the cities.

I think when a mayor can get both of those things, the mayor is delighted. If he can get both middle income residents, whether they move from the fringe of the city or from suburbia or from out-of-town . . . The fact that this administration came in and many of them decided they did not want to live out in the suburbs was good news for a lot of the realtors and speculators.

The CHAIRMAN. You are saying the maverick, unusual mayor who puts diversity ahead of—

Mr. HOLMAN. I don't think most of the mayors have had the . . . If you are, for example, caught the way some of the mayors I know are, you want middle class in your city to help with the tax base, and you would like to have diversity, if you can, but if you have the choice of the two—a lot of diversity but a very poor tax base . . . That is why I think Mr. Mills is right in saying that diversity is going to require something in the way of bonuses, incentives. I don't know whether anyone has put title I, section 101 as the first principle, but what is happening in many cases, is that it is being ignored as a principle.

Mayors want to be able to fight that dwindling revenue question. If they can get a diverse community base to deal with that, they will.

If they can't, they will do such things as happened in St. Louis,

where the community development money went to the upwardly marginal neighborhoods and not to the ones that were more diverse and that needed it.

The CHAIRMAN. Did you want to comment, Mr. Kotler?

Mr. KOTLER. I would just add one thought, that you might consider.

Can we develop some way to compensate cities for the loss of their tax base, in order to preserve and encourage diversity at the local level? This is a new thought, but if we want diversity sought as a local initiative, then we may have to meet the tax problem facing the city government.

The CHAIRMAN. As you know, we will have problems with the Senate Finance Committee, but it's certainly got its merit.

I have one more question. I apologize for detaining you so long and keeping you from seeing a very good film, but the question is for Mr. Weiler. Are you in your neighborhoods—this is a kind of a mean question. I am sure you can handle it—In Queen Village, merely slowing down an inevitable trend, slowing it down, if demand by upper income people who live in your area keeps increasing, can you do anything to slow it down?

Mr. WEILER. Yes. We are definitely slowing it down.

The CHAIRMAN. How do you know you can do more than slow it down?

Mr. WEILER. My perspective is only 20 or 30 years.

The CHAIRMAN. Go the way of S. City Hill and Georgetown.

Mr. WEILER. I think we can avoid that, as far as I can see. Cities do have sort of a life cycle. These things change. I think we can do it with some help. The children who are to be born there, they can grow up and decide whether they want to live there.

And by the way, there are kids being born in the neighborhoods. Even with the newcomers there, they are having kids.

I think the possibility of diversity is there, although it is late for my particular neighborhood, but I think the possibility is certainly there.

But it can't be done by just focusing on one thing. It has to be a comprehensive approach, dealing with everything.

The CHAIRMAN. I wanted to know, of course, to get your impression of degree of confidence and to be very confident you can do it.

Mr. WEILER. Yes, sir. One thought: one of the things that keeps happening is people change the rules of the game, people keep changing the rules as we are playing. For example, we have three high-rise public housing towers in my neighborhood which have been changing about, so I just know that one of the tricks that the city is going to pull on us after we get everything else in place, and have even reached some agreement in the constant war between the homeowners and the public housing tenants which is primarily economic, although there are racial overtones, too, somebody in city hall is going to say, Aha, this neighborhood is a good neighborhood now. It is coming back, and this high-rise, this public housing [which will retain some of the last black and low income people in the neighborhood] this really is going to be a disincentive to development in this neighborhood. They will say this about 10 years after

the neighborhood is developed, that what we really have to do now is convert this high rise to a diverse income group, and eventually, it will end up converted to luxury high-rise. Further intensifying the homogeneity of the neighborhood.

Most cities, I would point out now, are approaching the due date on the bonds of the original housing projects in the late thirties and forties. I believe they are 40-year bonds and will now begin to revert to local ownership leaving this a real possibility.

The CHAIRMAN. I thank all of you gentlemen so much. It is one of the best panels we have had in a long, long time. Most helpful and informative.

The film you are about to see, is called "Neighbors, Conservation in a Changing Community. It is about the south end of Boston, something I think is very exciting.

[Film.]

[Whereupon, the hearing was adjourned.]

APPENDIX

STATEMENT OF WILLIAM K. REILLY, PRESIDENT, THE CONSERVATION FOUNDATION

The Conservation Foundation is pleased at this opportunity to show its new film, "Neighbors: Conservation in a Changing Community" which deals with the important issue that is the focus of these hearings. Produced by The Conservation Foundation for the National Endowment for the Arts, this documentary on neighborhood conservation in Boston's South End addresses a key question: How can city neighborhoods accommodate reinvestment and change, while protecting their existing qualities?

The South End was selected as the film's site because it shows quite graphically the promise and the threat of urban conservation—the encouraging investment of energy and resources of new residents in older housing, and the uncertainties this middle-class return pose for the often strong social fabric of an existing community. The assets of the South End neighborhood include both its physical structures and its highly diverse population. Strong personal and public commitments have been made to protect and nurture these strengths.

Our decision to make this film stemmed from insights gained in a three-year research program on urban conservation. While most of the Foundation's concern in its 30-year history have involved traditional natural resource issues, in recent years we have come to see that resource conservation is as appropriate a strategy in the urban context as in the natural one.

The film illustrates the many types of people involved in a neighborhood revitalization effort, and their differing resources and needs. One important segment of the urban population deserving special note is the elderly. In one of our research projects dealing with the impacts of neighborhood conservation of older people, we have discovered that the elderly are often represented in disproportionate numbers in city neighborhoods. They are frequently the victims of processes which, while they improve neighborhoods physically, result in higher rents and taxes as well. The film shows two kinds of older city residents: the long-time home owner, and the transient renters and loners, a group identified to us in our research as a "hidden problem", for whom there are few statistics, or advocates.

The prevailing view of the elderly in cities has been that they were trapped in an increasingly hostile poor environment. Our research has shown the deep ties that older people have in their neighborhoods—even though these may be judged as blighted or inadequate by others. Urban conservation poses new opportunities for older people in cities, but only if they are part of the revitalization effort, and not its victims. They are probably the least able to cope with traumatic change, the ones for whom neighborhood disruption often means that society must attempt to provide not only a housing unit, but also the structure of services and community that has enabled the older person to live independently.

Whether we are speaking of the elderly or the young, the middle class or the poor, the disadvantaged or the advantaged, we must be wary of simplistic approaches to help cities and their residents. The goal of diversity will not be achieved by stifling the welcome momentum of reinvestment occurring in many neighborhoods—which is bringing a new diversity to our cities—or by encouraging a status quo that we have long bemoaned, or by giving incentives to efforts that are insensitive to their victims. Success lies in recognizing the dynamic nature of urban life, in tempering and managing the forces of adaptation and change in cities, and in devising policies that themselves respond to the diversity in American cities.

As the film shows, there are no easy answers—but it shows, too the direction in which urban conservation must move if it is to be relevant to a majority of American neighborhoods.

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THE ADAMS-MORGAN FEDERATION,
Washington, D.C., July 8, 1977.

HON. WILLIAM PROXMIRE,
Chairman, Committee on Banking, Housing and Urban Affairs, U.S. Senate,
Dirksen Senate Office Building, Washington, D.C.

DEAR CHAIRMAN PROXMIRE: I request that this letter be included in the published Hearings of your Senate Banking Committee on the issue of neighborhood diversity and the displacement of existing residents in neighborhoods undergoing restoration activity. We successfully opposed urban renewal displacement in our area in 1965.

In your press release announcing the hearings to be held July 7 and 8, you stated, and I am responding to your invitation, that: "I have called these hearings to ask HUD, the Urban Reinvestment Task Force, scholars, and community residents to assess the extent of the displacement problem, and to suggest strategies to make sure that we take advantage of the back-to-the-cities movement to preserve healthy diverse neighborhoods, with housing opportunities for lower income people, as well as for the upper middle class".

First, let me introduce myself. I am a liberal Democrat, I am a former Congressional aide, I was first secretary of the 150-member Democratic Study Group (DSG) of the House of Representatives. Also, I am credited by Senator J. William Fulbright in the Congressional Record (July 28, 1971, page E 8438-9) with basic work in the establishment of the President John F. Kennedy Memorial Center for the Performing Arts, work which Senator Fulbright said made the Kennedy Memorial Center for the Performing Arts possible and a reality. I was a Congressional aide for 20 years and am now retired.

You spoke often during the first day's hearings on July 7 of the old HUD, and the new HUD. You said the old HUD built office buildings, and luxury housing, and you and the witnesses said that housing and jobs in the inner city were essential to renewal. HUD witnesses agreed. You and the HUD witnesses agreed that there were a number of tools to provide housing, and that it was essential to build new housing as well as rehabilitate housing.

But you are being sold the Brooklyn Bridge, Manhattan Island, and a gold-brick if you think there is a new HUD and a new Congress. So you ought to ask the HUD officials, Robert Embry, Donna Shalala, Geno Baron, and HUD Secretary Patricia Roberts Harris some hard questions before they make a shambles of the promises of concern for inner city areas of President Carter. For instance:

1. Urban Renewal in the downtown Washington, D.C. commercial area is being used right now to provide (a) a convention center costing \$110 million; (b) hotels, office buildings and luxury housing; and the Senate and House Appropriations Subcommittees on the District of Columbia are holding hearings on a \$27.7 million appropriation to get the program underway. This is a Federal project, according to the General Accounting Office (GAO) and an Environmental Impact Statement is required, but none has been provided. Congress has ignored this—even though the GAO has presented a special study to the Congress pointing to the need for an Environmental Impact Statement. Ask HUD's Secretary Harris why?

2. Urban Renewal in the downtown area is being used right now to provide high-rise office buildings at 12th and G Streets, NW, under a plan which calls for building 300,000 square feet of office space to rent at \$10 per square foot, which is twice the rental rate in the District of Columbia and the region. This plan will double the rentals of the Federal Government and of the District of Columbia Government. Ask HUD's Secretary Harris why?

3. Urban Renewal in the downtown area is being used right now to provide office buildings and luxury housing on Pennsylvania Avenue, and this has been approved by the Congress. Ask HUD's Secretary Harris why?

Senator Proxmire, for years you have been pointing out that urban renewal should be used to rehouse slum-dwellers in decent, safe, and sanitary housing, and that it should not be used to provide office buildings, convention centers, and luxury housing, etc. Yet the new HUD, like the old HUD, has spent millions of dollars on "Streets for People", along with funds to acquire sites for office buildings, hotels, and luxury housing, which mocks President Carter's promises.

The *Washington Post* (July 3, 1975) reported, and I quote—

"As yesterday's meeting ended, board chairman John J. Gunther (head of the D.C. Redevelopment Land Agency, the local urban renewal authority),

who is also the executive director of the U.S. Conference of Mayors, tapped his gavel and delivered a brief valedictory. It contained statistics: \$750 million of completed redevelopment . . . a total of 8,564 housing units have been completed, including 2,236 for families with low and moderate incomes, of which 900 are in areas devastated by the 1968 riots . . . the removal of the (SW Urban Renewal Project) area's mostly black inhabitants and their replacement in the area with affluent whites has left a residue of bitterness that plagues urban renewal efforts to this day."

Senator Proxmire, I understand your concern, and I sympathize with it. More than 23,500 people and 750 small businesses were displaced by the SW Urban Renewal Project, 70 percent of them low-income Blacks. Today, in that area stands the largely Rockefeller-owned L'Enfant Plaza Complex—located on land where homes once stood—and if the Rockefellers need urban renewal to build buildings on land once occupied by the poor then a new day has dawned.

In fact, these Federal Departments and Agencies occupy buildings on land taken by urban renewal authority and money and mis-use of eminent domain powers: HUD, the Department of Transportation, the U.S. Postal Service, and the U.S. Navy which occupies the new Forrestal Building soon to be occupied, so we hear, by the new Energy Administration headed by Mr. Schlesinger.

Fortune Magazine (March 1975) in a major article on Washington, D.C., noted that:

"More than \$500 million worth of federal construction is underway. Private investment has generally avoided the area east of the White House (the urban renewal downtown commercial project area) . . . Washington (despite the \$500 million in construction) is one of the sickest cities of all. Outside the well-groomed Federal area . . . many of the streets are filthy and in need of repair. Some of the riot corridors—the streets burned and looted in the riots that followed the assassination of Martin Luther King (in April 1968) are still desolate wastelands."

You should ask HUD's Secretary Harris why these things go on and on like this, under Republican and Democratic Presidents.

If there was ever an agency that deserves (1) a Golden Fleece award, and (2) to be given a full burial under the sunset laws it is HUD, especially as it has operated in the Nation's Capital itself. The expenditure of \$750 million in urban renewal funds with the provision of only 2,236 housing units for the poor is clearly an extreme case of the mountain laboring and bringing forth a mouse.

How could the Senate and House banking committees which write the urban renewal laws let such things happen?

Take the inner city areas of the District of Columbia which you run through to and from your office, for instance. The *Washington Post* (October 16, 1976) announced that:

"Eight years after the worst urban violence in Washington's history and four years after former President Nixon promised that the rebuilding work would be completed in time for the Bicentennial, renewal of the 14th Street NW riot corridor is finally and irreversibly underway. Almost 700 units of federally financed or insured housing—ranging from garden apartments to row houses to high-rise buildings—have been started within the past several months near 14th Street between Fairmont Street and Meridian Place, NW."

"Another 112 units of low and moderate income housing, to be located at 14th and Clifton Streets NW, and a shopping complex along 14th Street near Park Road NW are also nearing the end of a long renewal planning process."

"The decay and revitalization of the 14th Street riot corridor parallels in many ways the late 1960s decline and recent upsurge of the entire city. It took years for the District to recover from the 1968 violence, the arson and the looting, but now a renaissance of major proportions is occurring in many sections of the city."

"Statistics recently released by the city's savings and loan associations show that they are now lending more than 25 per cent of their mortgage dollars within the District, compared to only 10 per cent as recently as three years ago."

The *Washington Post* (July 6, 1977) published a report by Haynes Johnson titled "Uncle Sam, Slum Landlord, Practices Urban Unrenewal" which pointed to the 16-years of neglect of the tenants in housing owned by the Federal Government's HUD. Haynes Johnson wrote:

"William Odrick's lived in the same house since 1932. He's 80. Eleanor Johnson's lived two doors away since 1964. She's 14. Between their attached

homes stands another turn-of-the-century brick row house. It's boarded up. Stamped on a piece of plywood nailed over the front door are the words: U.S. Government Property. No trespassing." Down the block, on both sides of the street, are empty, blackened hells of buildings, all bearing the same signs of ownership. The clusters of families who live in this wreckage, like the Odricks and Johnson's don't own their homes. They all pay rent, as they have for years and years, to the same slum landlord—Uncle Sam. They live on Bates street, in sight of the Capitol."

The news media, newspapers, magazines, TV stations have over the years excoriated Uncle Sam and HUD as the largest and worst landlord in the city.

Yesterday, July 7, your Committee received the statement and the testimony of Frank Smith, Jr., chairperson of the Adams Morgan Organization, a researcher at the Public Resource Center, and chairperson of the Adams Morgan Advisory Neighborhood Commission. I would like to underscore a point made in the printed statement submitted to your Committee by Frank Smith, wherein he stated that:

"The 1700 block of Seaton Street, N.W. has been the focal point of the Adams Morgan Organization's work for several years . . . Today, after more than a year struggle, I am proud to announce that nine of these families (on Seaton Street) will go to settlement to purchase their homes within the next week . . . there was considerable assistance from the D.C. Department of Housing and Urban Development, which said, in effect, 'If A.M.O. can figure out a way to purchase the homes, the city will rehabilitate them.'

"At this point the residents were on their own in the effort to purchase the houses; but, as fate would have it, A.M.O. was at this time beginning to negotiate with Perpetual Savings and Loan (Perpetual Federal Savings and Loan Association, a 95-year old institution in the District of Columbia) regarding the location of a branch in Adams-Morgan. Both A.M.O. and Perpetual needed a project to demonstrate that Perpetual would make loans to residents with low to moderate incomes.

"In the last week Perpetual sent to the Seaton Street residents its letter of commitment to make 90 percent loans for 20 years, with a provision that the terms will be converted to 30 years when the rehabilitation is completed . . . this agreement represents a small step for Adams Morgan but a giant step for banking. It will only help a marginal number of low to moderate income residents, mainly because the prices are already very high in Adams Morgan and relatively few people will be able to buy. Through the Branch Advisory Committee, however, the agreement does provide the community with a vehicle and with the incentive to locate potential home buyers.

"The agreement is a giant step for banking in that it recognizes the fact that neighborhood groups have a say in what should be the lending policy of institutions in their neighborhoods. As others in D.C., and in other areas of the country assert this right, better agreements will be forged; but Adams Morgan was trying to extract a special lending program from Perpetual in a situation where the city had refused to develop a special lending program for housing in the area."

It becomes quite clear from this statement that the Perpetual Federal Savings and Loan Association has stepped in to help the Seaton Street residents become home-owners when the D.C. Department of Housing and Urban Development, as Frank Smith of A.M.O. points out "refused to develop a special lending program for housing in the area."

If the new HUD, which you lauded so at yesterday's hearing (July 7, 1977), is really as new as you indicated, it would be helping the hard-pressed D.C. Government to develop and fund a special lending program for low- and moderate-income housing on Seaton Street and in other areas of the city. So, I can only ask you to ask HUD's Secretary Patricia Roberts Harris, and the HUD officials who testified before you yesterday, to take the lead in funding a special lending program for housing in the District of Columbia. It is very clear that Perpetual Federal is doing its part—but HUD isn't despite all its fair words and numerous platform appearances of HUD Secretary Harris and other top HUD officials.

The happy resolution of the agreement which A.M.O. sought with Perpetual Federal has a long history, as was pointed out by Mr. Thomas J. Owen, president of Perpetual Federal in a response to A.M.O. officials in which he said—

"Since the original decision of Perpetual Federal Savings and Loan to

attempt to establish a savings and loan branch at the corner of 18th and Columbia Road in northwest Washington a number of civic groups have questioned the sincerity of Perpetual's desire to make mortgage funds available to the inner city, and specifically to low and moderate income families of the city. On numerous occasions Perpetual, through its President, has made known its desire to assist in the solution of the housing problems in the District of Columbia and the Metropolitan Washington S.M.S.A. Testimony to this effect has been made before the Federal Home Loan Bank in Atlanta. Notwithstanding these constant reaffirmations, the Adams Morgan Organization, the Adam Morgan Advisory Neighborhood Commission, and the Mt. Pleasant Advisory Neighborhood Commission tendered to Perpetual Federal a loan policy agreement to be entered into between Perpetual and those organizations. Many of the procedures called for in the agreement amount to reverse red-lining. The basic agreement replaces Perpetual's control over its organization with control by a local neighborhood association. The credit worthiness of purchasers is left to the judgment of people with no proven experience in credit ratings. The proposed loan agreement does not take into consideration the fact that the availability of mortgage funds is often outside the control of Perpetual Federal, nor does it acknowledge Perpetual Federal's obligation to treat all parts of the Metropolitan Washington S.M.S.A. equally.

"The agreement implies that if Perpetual agrees to all of the agreement's conditions, the neighborhood organizations would withdraw their opposition to Perpetual's application for a branch, they would not undertake any depositor boycotts, nor would they participate in a proxy challenge to Perpetual's management. These latter concessions by the neighborhood organizations which, of course, are contingent upon Perpetual entering into the agreement, appear to Perpetual to be intimidation. A lot of what is encompassed in the agreement is conceptually in accord with Perpetual's own basic philosophies. We do not believe that intimidation is, however, a viable means of improving the quality of life within our city."

More light was shed on the A.M.O.-Perpetual Federal "agreement" cited by Frank Smith in his testimony before your Committee on July 7, 1977 by a statement made by Thomas J. Owen before the Federal Home Loan Bank Board in Atlanta, Georgia where Mr. Owen spoke as president of Perpetual Federal in support of its request for FHLBB approval of its proposed branch at 18th and Columbia Road, N.W. We quote from the lengthy statement made by Mr. Owen the following excerpt, and we recommend that your Committee study the entire statement carefully—

"Opposition to our branch has come primarily from the Adams-Morgan Organization which, in turn, controls the Adams Morgan Advisory Neighborhood Commission. Up until very recently the Board of Directors of the Adams-Morgan Organization and the Advisory Neighborhood Council were almost identical.

"On June 3rd I received an inquiry from Nadine Winter of the City Council asking about Perpetual's possible involvement on Seaton Place. As a result of this inquiry, I met with Nadine Winter, Council member Dave Clarke, and Lorenzo Jacobs of the City's Housing office to discuss and confirm Perpetual's willingness to be of assistance on Seaton Place if the courts ruled favorably in behalf of the tenants.

"On September 11th the Adams-Morgan Organization held elections wherein 595 of the 37,500 people in the service area voted. Of this number 167 people voted in favor of Perpetual's establishing a branch in the neighborhood, 180 persons voted that they would be in favor of Perpetual's opening a branch in the neighborhood if the Adams-Morgan Organization were able to get certain safeguards for the neighborhood, and 247 people voted in opposition to Perpetual's establishing a branch in the neighborhood. Therefore, of the 595 people voting only 247, or 42 per cent, were opposed.

"Perpetual has always been concerned with neighborhood attitudes and we would not want to force ourselves upon any neighborhood. On the evening of November 2nd this year we mailed out a letter to our some 9,400 customers in the Adams-Morgan area asking for their opinion on our proposal to locate a branch at 18th and Columbia Road. To date 2263 have responded affirmatively, while 78 have responded in the negative.

"Perpetual has been interested in the Adams-Morgan area for a number of years, witness its almost \$17 million of loans to 1,374 parties, and \$18.8 million in deposits in 8,293 accounts from citizens of the area.

"Savings and Loans in the District of Columbia have been criticized for concentrating their branching activity in the central office building district and in the predominately white upper income neighborhoods along Wisconsin Avenue in northwest Washington. Perpetual is interested in expanding in these neighborhoods, but is also interested in offering its services to neighborhoods in less affluent areas as well. Perpetual's most recent step in this direction took place in 1973 when we established its Riggs Road office in upper northeast Washington."

It is with the thought in mind that it would be helpful to your Committee to get the broader picture and further insight into the inner-city Adams-Morgan area that I bring this information to you.

The A.M.O. spokesman, Frank Smith, due perhaps to the length of this statement, overlooked two other issues of importance, they are (1) the failure of A.M.O. and its cooperating groups to call for new housing in the Adams-Morgan area; and (2) the support of recreation instead of low-and moderate-income housing on the key 5-acre Shapiro Tract.

Other city areas, including the 14th Street area nearby, are pushing for an expanded housing program. A.M.O., however, is pushing for recreation use of the key 5-acre Shapiro Tract and this has been presented to the Congress with a request for over \$2,000,000 in appropriated funds to begin acquisition of the Shapiro Tract for recreation. This matter will be disposed of in the next few weeks by the Senate and House Subcommittee on Appropriations for the District of Columbia headed by Senator Patrick J. Leahy (D-Vt.) and Rep. William H. Natcher (D-Ky.).

Education was mentioned as a key concern of inner city neighborhoods, and I include herewith letters I have received from (a) Dr. Vincent Reed, Superintendent of Schools, and (b) a letter from the Spanish community to Senator Chiles, on these vital matters.

The partial report of the New York Times on the Adams-Morgan area gave simplistic answers to a complicated problem, and it ignored most aspects of the housing problem except those which supported the concepts being advanced by the New York Times as a solution to inner-city problems.

The Senate and House D. C. Appropriations Subcommittees chose to ignore, as does the New York Times the cries of the Spanish community for housing on the Shapiro Tract, and about which the Spanish community presented testimony to these Congressional committees in connection with the 1975 D.C. Budget.

Dr. Vincent E. Reed points out in his letter that the required goal is 150 sq. ft. of playground space per child, and he says that the three public elementary schools in the Adams-Morgan area fail completely to even approach that goal. For instance, he says: the Adams school has 41 sq. ft. per pupil of playground space to serve its 486 pupils. The Cooke school with 617 pupils has 97 sq. ft. of playground space. The new Morgan school which is to open in the fall with 1,000 pupils has only 86 sq. ft. of playground space per pupil.

At the same time, Congress has provided adults and upper teens in the area (with an intense lobbying effort by A.M.O.) the following: (A) an indoor pool, occupying 7,500 sq. ft. of space; tennis courts occupying 14,400 sq. ft. of space; and a gym with 1,000 sq. ft.

We hope that these additional items of information will be helpful to you and your Committee in coming to grips with the problems of the inner city areas of the District of Columbia, which have been neglected as far as its housing and educational problems are concerned. At the Stevens School at 21st and K Streets, NW, attended by Miss Army Carter and the children of diplomats and well-to-do parents with political clout, the Congress and the D. C. Government has provided an amount of playground space which approaches the norm of 150 sq. ft. of playground space per child.

With kind regards and a final request that this letter and its attachments be included in the Congressional hearings of your Committee and published along with the testimony of other witnesses, I am presenting my own views of what is needed in our inner city area.

Respectfully yours,

GEORGE FRAIN, (Retired Congressional aide).

President, Adams-Morgan Federation and Secretary, 18th Street and Columbia Road Business Association and Vice President, Kalamazoo Citizens Association.

PUBLIC SCHOOLS OF THE DISTRICT OF COLUMBIA,
OFFICE OF THE SUPERINTENDENT,
Washington, D.C., June 20, 1977.

Mr. GEORGE FRAIN,
President,
The Adams-Morgan Federation,
Washington, D.C.

DEAR MR. FRAIN: As you requested in your letter of May 18, 1977, the following information has been compiled.

You requested the amount of playground space available for the pupils at Adams, Cooke, and Morgan. At Adams Elementary School, there is approximately 19,500 square feet of area for playground use. The capacity of the school is 486 pupils. The resulting ratio is 41 square feet per pupil.

The situation at Cooke Elementary School is somewhat better, although it does not meet the goal of 150 square feet per pupil. Cooke's playground area is 60,000 square feet, and the capacity is 617 pupils. The result is 97 square feet of playground space per pupil.

In the case of Morgan, which has been renamed the Marie Reed Learning Center, there are a different set of circumstances. There is both Public School playground area and Recreation Department property. The school grounds provide approximately 86 square feet per pupil. The additional Recreation Department space, which is available for school use, provides another 51 square feet per pupil, bringing the total to 137 square feet of playground space per pupil.

The second question had three parts. Part "a" requested the amount of space occupied by the swimming pool. The indoor pool is a fifty-meter facility, which—with the deck area—occupies approximately 7,500 square feet.

Part "b" of question two requests the area of the tennis courts. There are two courts, each is 60 feet by 120 feet; their combined total area of 14,400 square feet. It should be noted that the courts are on Recreation Department property.

The third part of question two is the area of the community center. The following list of facilities have been designated for community use:

	Square feet
Swimming pool.....	7, 600
Gymnastics room.....	1, 000
Wood and metal shop.....	700
Health clinic.....	5, 400
Day care center.....	1, 700
Recreation director's office.....	250
Arts and crafts center.....	2, 850
Total area for community facilities.....	19, 500

It is expected that the building and adjacent facilities will be operational by the School System in September, 1977. The entire project should be fully completed by the Spring of 1978. If there are any additional concerns, please feel free to contact the appropriate office.

Sincerely,

VINCENT E. REED, *Superintendent of Schools.*

U.S. DEPARTMENT OF COMMERCE,
THE ASSISTANT SECRETARY FOR ECONOMIC DEVELOPMENT,
Washington, D.C., May 18, 1976.

Mr. GEORGE FRAIN,
Vice-President,
Kalorama Citizens Association,
Washington, D.C.

DEAR MR. FRAIN: This is in response to your correspondence of April 23, 1976, to Secretary Richardson, regarding the District of Columbia's proposed request for assistance from the Economic Development Administration (EDA) to fund a study of the proposed convention center at Mount Vernon Square.

There seems to be some confusion surrounding the proposed development of the convention center. First, the convention center is an initiative of the District of Columbia, not the Federal Government. This proposed development, not unlike similar efforts of many other municipalities, is one of many projects the city and the business community are contemplating as a means of generating an improved and expanded economic base for the city. Secondly, the often suggested name for the proposed development, Eisenhower Bicentennial Memorial, should not be interpreted as an indication that the project's function as a memorial takes precedence over its role in providing convention facilities. The city and the business community could just as easily suggest another name for the proposed facility.

As we understand the District's current plans, EDA would be requested to provide funding only for a feasibility study to determine, to the fullest extent possible, the economic impact this project would have for Washington, D.C.

Finally, you should be aware that all developmental efforts now require that an environmental impact assessment be conducted prior to actual development. It is during this process that consideration is given to the varying interests of the community. Within that framework, the Kalorama Citizens Association would be able to indicate its reservations.

It is encouraging to know of the Kalorama Citizens Association's concerns and interests in the programs of EDA. If we can be of any further assistance, please advise.

Sincerely,

JOHN W. EDEN

Acting Assistant Secretary for Economic Development.

GOVERNMENT OF THE DISTRICT OF COLUMBIA,
DEPARTMENT OF HUMAN RESOURCES,
D.C. SPANISH COMMUNITY ADVISORY COMMITTEE,
Washington, D.C., March 3, 1976.

HON. LAWTON CHILES,

*Chairman, Senate D.C. Appropriations Subcommittee,
Senate Office Building, Washington, D.C.*

DEAR MR. CHAIRMAN: This letter is to advise you that the District of Columbia Spanish-speaking community fully supports housing, with related facilities, including shops, a day care center, a community meeting hall, and recreation on the five and a half acre Shapiro Tract for low and moderate income for Black, White, Spanish and any other poor or minority group.

On this Tract, in accord with studies that have been made, 700 units can be easily built with all the facilities that I have mentioned. At least one hundred and fifty of these units should be allocated to senior citizens who are in desperate need.

Thousands of signatures have been collected in support of a housing project in this area which is conveniently located for everyone.

Some time ago Mayor Washington, and James Banks (the former Director of the D.C. Housing Department) were aware of the need for more housing and they were in agreement with the program.

Just recently Walter Pierce a staunch, outspoken supporter of the Shapiro Tract for recreation came to my office and stated that if the government doesn't get the money for the park he will be glad to see housing with adequate recreation facilities. I think this is an important development and indicates a change of attitude on the part of those who supported acquisition of the Shapiro Tract for recreation only.

Those people who are not so eager for housing know that hundreds of Black and Spanish families are leaving the city constantly, moving to the suburbs due to the District's acute housing problems. The facilities that are in the neighborhood are dilapidated, infested with rats and cock roaches, and very expensive.

The Shapiro Tract is the last large, undeveloped tract in the Adams-Morgan Area. The Spanish community will support any movement to purchase the Shapiro Tract for housing and recreation purposes.

We respectfully request your subcommittee to provide money to acquire this tract, but please make certain that your subcommittee will require that housing and recreation along with shops and other needed facilities be built.

Recreation facilities are well provided by the \$10,000,000 Morgan school, Malcolm X Park, Rock Creek Park, and the National Zoo.

I would be glad to appear and testify on this matter when public hearings are announced.

Respectfully yours,

CARLOS M. ROSARIO, *Executive Secretary.*

THE ONTARIO LAKERS COMMUNITY YOUTH PROGRAMS OF ADAMS-MORGAN.

November 6, 1976.

DEAR COMMUNITY: Unless we can come up with \$500 a month rent we are going to lose our Community Center located at 17th & Kalorama Road N.W. The owner a Mr. Goodman have been very nice to us, that is for three years he gave us the building rent free. We put a lot of time and energy into trying to make that place nice for this community. We feel that since 1964 we have tried real hard to bring a recreation program to Adams Morgan to be a living example to the whole city, and we have never had any money, but our programs have always been good. Walter C. Pierce have worked his tail off looking out and trying to help keep our young people out of trouble and keeping crime low. Our group built Community Park West or tried to show the community the idea of having a park there. Our group also hung Christmas weaths along 18th St. and Columbia Road for the last two years. Some 1,800 young basketball players from all over the city since 1970 have played in the now famous Ghetto Invitational Basketball Tournament that we started. We have 6 young men from this community now in college from football scholarships and they once practiced everyday at Community Park West at 2700 Adams Mill Road N.W. By the way the Congress of these United States in June just gave the city the okay to buy it as Senator Lawton Chiles Dem. Fla became a friend to Adams Morgan Community. This action was taken through the conference but the city must still find \$600,000 to make the purchase final. We are looking forward to that day coming so that we all can together plan our newest recreation facility and park. Our boys and girls really want a 100 yard football field with lights. We hope to use money raised this year to help further develop our Community Center. We are now working on some projects such as a movie that we will show to children on Saturday morning that will focus on education world wide.

We also support Mrs. Charlotte Filmore and Mrs. Fannie Hill when they have their own different projects. Please make your checks and money orders payable to: The Ontario Lakers or Adams Morgan Organization, 1892 Ontario Place Northwest Wash., D.C. 20009.

ADAMS-MORGAN ORGANIZATION.

Adams-Morgan, Columbia (DC).

DEAR AMO MEMBER: Our next spring assembly will be on Sunday May 22nd 1977 at the Morgan School at 1773 California St. N.W. The meeting will begin promptly at 2:00 lasting no later than 5:30 p.m. This assembly will be conducted jointly with the Advisory Neighborhood Commission of Adams Morgan (ANC-1C).

AMO has been very active these last few months and we look forward to sharing with you accounts of our various projects. Among others, they include:

Negotiations with Perpetual Savings & Loan Assoc. for a loan policy concerning their proposed branch at 18th and Columbia Rd. N.W. to suit low and middle income residents in the area.

Housing/fundraising efforts for the Seaton Street tenants who have been allowed to purchase their homes.

Recreation—the lobbying effort for the city to purchase the Schapiro tract on Adams Mill Rd.

Any ten individuals may request that another item be included on the agenda.

Incidentally, AMO's Executive-Council meetings are every second and fourth Monday of the month. The ANC meetings are every first Monday. Both are open to the public and start at 7:30 p.m. at 2311 18th St. N.W.

Our moderator will be Stan Williams of the Mt. Pleasant Organization.

[From the Washington Post, July 3, 1975]

RLA ENDS STORMY EXISTENCE

(By Jack Eisen, Washington Post Staff Writer)

The D.C. Redevelopment Land Agency, which has always found it easier to tear down than to build back, was itself redeveloped yesterday.

The RLA, as it was generally—and not always fondly—known to the community, ended 28 years of existence as the spearhead of Washington's urban renewal program. Today it becomes part of a new D.C. department of housing and community development, which will assume that role.

RLA's board of directors, which has met at least once a month since the late chairman Mark Lansburgh convened the first meeting in his family's now-defunct department store, wound up its policy-making activities with a 46-minute session yesterday.

Its last official act, an item added to the agenda at the last minute, was an authorization for three staff members to attend a meeting on relocation, social services and citizen participation next week in St. Louis.

The RLA's staff of about 500 will be transferred either to the new department or to the corporation counsel's office. Although RLA will remain in existence on paper, it will have no active function, and the RLA board will be reduced to carrying out some limited legal functions that are required by the 1946 law that created the agency.

As yesterday's meeting ended, board chairman John J. Gunther, who is also the executive director of the U.S. Conference of Mayors, tapped his gavel and delivered a brief valedictory.

It contained statistics: \$750 million of completed redevelopment, more than any other city in Washington's size range. A total of 8,564 housing units have been completed, including 2,236 for families with low and moderate incomes, of which 900 are in areas devastated by the 1968 riots.

And Gunther spoke both of the "challenges that face us" in the future and the continuing problems of dealing with "the bitter fruits of years of poverty, discrimination and neglect with imperfect tools" that include inadequate laws and money.

These tools tore down and rebuilt—mostly in high-rise structures—a 550-acre section of Southwest Washington that often was likened to a picturesque and tranquil river town.

But the facade masked some of the city's most fetid slums. Three-fourths of the dwellings had no central heat, half had no indoor toilets or water and one-fifth had no electricity.

Nevertheless, the removal of the area's mostly black inhabitants and their replacement in the area with affluent whites has left a residue of bitterness that plagues urban renewal efforts to this day.

For technical reasons low-rent public housing, to be occupied by many of these displaced, was not included within the urban renewal area boundaries, so it was built nearby.

From the Southwest RLA moved to the North Capitol Street section near Union Station once called Swampoodle. In Foggy Bottom it won a head-to-head controversy against private developers with strong political ties for the right to build a showcase project for upper income people called Columbia Plaza.

Today there are nine urban renewal projects in the city, most of them encompassing the downtown and adjacent areas.

Among them is Fort Lincoln, a new town to be built to the site of the old National Training School for Boys at the city's northeastern edge.

The late President Johnson once said Fort Lincoln would show how quickly urban renewal could move. Instead, it proved anew that a bureaucracy that must mesh with other bureaucracies and deal with private developers is more likely to crawl at a glacial pace.

That's the way it all began.

Created by Congress in 1946, RLA was given no money to operate until 1951. Then it was barred by the lawmakers from renewing the two areas of Anacostia it had targeted as top-priority projects.

So RLA turned its attention to the Southwest, beginning what seemed to Washingtonians throughout the decade of the 1950s to be an endless series of planning disputes, financial negotiations and frustrations.

In those days, one official recalled yesterday, RLA was "the biggest game in town," and the newspapers devoted seemingly acres of newsprint to details of RLA activities that would barely be reported nowadays.

Area B, the first 80 acres to be leveled, became as familiar as, say the Metro transit project of today—and it remained, much to the discomfort of officials, vacant for about as long as it is taking the subway to be dug.

To get Area B and its neighbor, Area C, unstuck required the intervention of President Eisenhower, who chose a former ambassador to Ireland, the late George A. Garrett, as his special expediter.

It worked.

James H. Scheuer, now a Democratic congressman from New York, and Roger L. Stevens, now the board chairman of the John F. Kennedy Center for the Performing Arts, became the builders of the first new building in Area B, the Capitol Park apartments.

The oft-repeated slogan of RLA's longtime second chairman, the late John A. Remon—"Let's get something above ground!"—became a reality with its groundbreaking in 1958.

William Zeckendorf, whose fabled firm of Webb & Knapp later fell upon hard times and was forced to sell out, began the renewal of adjacent Area C.

There was, incidentally, no Southwest Area A. In the redrawing of boundaries, it was merged into Area C and the latter area in turn spun off its own subsidiary, called Area C-1.

[From The Washington Post, Wednesday, June 22, 1977]

REFURBISHING IS SET IN CITY RENEWAL AREA

(By Milton Coleman, Washington Post Staff Writer)

Mayor Walter E. Washington announced plans yesterday to spend \$87,000 to refurbish 56 downtown buildings—many of which city officials hope will one day be torn down to make way for a vital urban renewal project.

Waving a big paint brush and predicting that the "cash registers will ring" as a result of the buildings' facelifts, the mayor said that more attractive storefronts should attract more shoppers to the downtown area. The 56 buildings, all near the intersection of 12th and G Streets NW, are owned by the city and rented to merchants.

"You just can't have a crummy kind of a situation and expect people to come in and feel good" about spending their money, Washington said.

The soon-to-be-refurbished buildings are located on land on which the city hopes a private developer will build a \$60 million office and retail complex considered indispensable to the city's overall downtown renewal effort.

Developer Gerald D. Hines of Houston has indicated that his firm is interested in building on the urban renewal site. As part of the deal, the city government has tentatively agreed to become a major tenant in the proposed complex, paying up to \$3 million a year for office space.

The mayor said yesterday that plans for the Hines development are "still alive and kicking." When asked why the city would spend \$87,000 to redecorate buildings expected to be demolished, Washington responded:

"Well, I don't think there's that much money in it. Fifty-six buildings with \$87,000—preventive maintenance would (cost) that much."

Lorenzo W. Jacobs, the city's director of housing and community development, said yesterday that construction of the complex is "extremely important to the revitalization of downtown."

The city has been trying to get the project started since the early 1970s. It appeared close to success last year when it signed a tentative agreement with Hines to lease 300,000 square feet in the office building scheduled to be built.

Hines has indicated that such support from the city would be necessary before the project could begin. Still, in the 11 months since the tentative agreement was made, the city has yet to make a binding commitment.

One reason, according to Jacobs, is that the City Council, fed up with the \$10 million each year that the city now pays to lease space, inserted into the capital budget for next year funds for a new \$35 million D.C. municipal office building.

That structure, as proposed by Council member Douglas E. Moore (D-at large), would be built on 4th and D Streets NW, across the street from the

present municipal center, on what is now a parking lot. The building would contain about 415,000 square feet of space.

Congress still has not acted on the fiscal 1978 budget and until it does, city officials are hesitant to make a 20-year, \$3 million annual commitment to lease space in the Hines project. If funds to construct the new city-owned building are approved, Jacobs said yesterday, "the District would really have to reassess its needs for 300,000 square feet of leased space."

A study by the city's municipal planning office has found that the city could use all 715,000 square feet of space provided by both the new city office building and the Hines building. But until the city's budget is acted on by Congress, Jacobs said, no decision is likely to be made.

Jacques DePuy, a Washington lawyer for Hines, said the Texas firm probably would hold out for a commitment from the city before it moves ahead with its project.

Twice since the Houston firm first expressed interest in building a twin-towered development on the site, it has had to agree to six-month delays in presenting final feasibility and concept plans because lack of a city commitment made it impossible to complete designs for the proposed structure, according to a source familiar with the project.

The source said he was uncertain whether Hines would agree to a third delay when the present extension expires in October. One other company that had investigated the possibility of developing the site withdrew in 1975 when it could not get leases before starting construction.

The 12th and G Street NW site is only a few blocks from where the city hopes to build another project designed to spur downtown renewal—a \$110 million convention center.

While the mayor was touting the \$87,000 refurbishing effort yesterday, others familiar with the Hines negotiations were sharply criticizing the city's year of indecision.

"It's a bunch of a baloney to paint up and fix up buildings that are already scheduled to be torn down. It borders on the ridiculous," one knowledgeable source said. "It really has come down to a question of the credibility of the city. They made a commitment and they're not going to keep it."

[From the Washington Post, Saturday, July 24, 1976]

DISTRICT PLANS TO RENT OFFICE SPACE IN COMPLEX AT 12TH & G STS. NW

(By LaBarbara Bowman, Washington Post Staff Writer)

The District government has entered a tentative agreement to rent office space in a proposed retail-office complex at 12th and G Streets NW that city officials regard as crucial to the redevelopment of the downtown area.

The cost to the city could be as high as \$3 million a year.

The developer, Gerald D. Hines of Houston, indicated to city officials that the project might be canceled unless it was supported with public funds.

A "memorandum of understanding" signed between the city and the Hines interests last Saturday states: "Current evidence suggests that the the downtown area east of 15th Street will not support quality office development without government assistance."

In announcing the signing of the memorandum, Mayor Walter E. Washington said:

"Major redevelopment is needed to turn around the deterioration of the eastern portion of downtown and any developer who comes into this area must make a substantial commitment. We feel the leasing of space by the district government could be beneficial to the city as well as to the success of the project, the stability of downtown and the economic health of the city as a whole."

The 12th and G Street site is next to a Metro station. The building that Hines proposes to build would be only the first of a series that would include offices, department stores and hotels.

The city has been trying since the early 1970s to get the project started. One company that has investigated the plans, the Tracen Corp., withdrew last year when it could not get leases before starting construction and thereby lost its financial backing.

It is normal practice for office buildings to be financed on the strength of leases that would become effective when the property is built.

In the case of the Hines building, the city has agreed to consider leasing 300,000 square feet of space for 20 years. The cost has not been determined, but city officials estimated that it would be about \$10 per square foot.

The "memorandum of agreement" states that the price will be negotiated over the next 60 days, and that either side can withdraw if an agreement is not reached.

At present, the District leases about 1.3 million square feet of office space at a cost of about \$10 million.

The most expensive office space the city rents is at 1325 G St. NW and costs \$6.50 per square foot. The D.C. department of housing and community development has offices there.

The premium price for office space anywhere in the city is about \$10 per square foot, officials said.

Regardless of what rent the city agrees to pay in the Hines building, the developer will receive no other subsidy, either in a reduced price for the land the developer would have to buy or in reduced tax bills, officials said.

The arrangement with Hines is an unprecedented one for the District. Some urban renewal officials expressed fear that the city would be "besieged by these requests" by other developers in urban renewal areas.

R. Robert Linowes, Hines' local attorney, said the developer requested city assistance in late May to get the project off the ground.

"We weren't able to get commitments from private users at this time," Linowes said.

"This (arrangement) will help appreciably to start things moving with the financial institutions and other private users," Linowes said yesterday. "It's not easy to get a private user to be the first one in an urban renewal area."

Linowes said it was "a normal thing" for a local government to assist a private developer in an urban renewal area to overcome the reluctance of private interests to get involved.

Linowes said Mayor Washington had been told that "there has to be a catalyst to get this thing going." Linowes added that "we will have some problems" without city help.

Hines is scheduled to submit detailed development plans to the city's urban renewal board on Sept. 3.

These plans must include statements from financial institutions committing them to supply the cash needed for construction.

Linowes said Hines will ask for a 6-month extension of the September deadline. The additional time will be needed to negotiate with the city and private lessors and to complete market studies and architectural plans, he said.

[From the DC Gazette, June-July 1977]

THE MYTH OF DOWNTOWN

A major part of the justification for helping developer and commercial interests through hundreds of millions for subways and freeways to bring people downtown and for downtown urban renewal, a convention center, the Pennsylvania Avenue Plan and "Streets for People," is the popular assumption that public money poured into downtown will revitalize it. City planners, Downtown Progress, the Board of Trade, council members, the media and others encourage this belief with rhetoric that is stunningly devoid of any hard evidence.

In an effort to find out just how much money we should be spending on downtown, we set out to learn what downtown produces in revenues for the city and what it costs in services. We failed because no one has bothered, or has been able, to come up with the basic facts upon which sound planning should be based. Downtown Progress considered funding such a project but backed off when they were told by consultants that there were too many definitional problems to make a sound study at the price it was prepared to pay. The planning office has done nothing. The budget office has done nothing. Tax collections are not made in a way that makes the information accessible. And if anyone knows how much it costs to service downtown or any other part of the city, it's a well guarded secret.

Without this information, every project propels itself on a myth—the one that any money spent on downtown is money well spent. One need only look around downtown and consider the sums already expended to “revitalize” it to bring this myth into question.

Since anybody's guess is as good as anyone's else's in this situation, we decided to make what E. F. Schumacher calls “an exploratory calculation.” An exploratory calculation, like a prediction, doesn't prove anything, but it may help us understand the direction in which the proof lies.

Taking revenue and expense figures for the DC government for 1967 and 1976 we assigned arbitrary but not unreasonable values to portion that downtown generated or cost. For example, we know that 4% of the income tax revenue of the city comes from the four zip codes that include downtown. They include more than downtown, but we assigned a value of 4% as downtown's share of personal income tax and 25% of other income taxes.

For sales tax, we assigned 25% as downtown's share. This is generous, especially when one considers that a particular business can not truly be credited with “generating” a sales tax when that tax comes out of a DC resident's dollar that would probably be spent somewhere in the city in any case. We assigned 25% of all other business-related tax revenues to downtown.

On the expense side, 15% of the costs of public safety and environmental services and the public safety portion of pension liabilities to downtown. Thirty percent of the Transportation Department's budget and the Metro deficit went to downtown, which is conservative. We included, as does the city's first unphonied fiscal report that was compiled with the aid of professional accountants, the capital contribution to Metro as an operating expense. The reason for this is that the Metro is an asset of the Washington Metropolitan Transit Authority and not of the city. For all other government expenses we assigned 5% of the cost to downtown, roughly equivalent to what we credited in income tax.

Rough, yes, but not unreasonable.

Here is how it adds up. In 1976 the city received \$139 million in revenues from and spent \$127 million on downtown. A net profit of only \$12 million, or 9% over costs.

Now let's look at 1967. The figures for that year were \$66 million in revenue and \$44 in expenses or a profit of \$22 million or 50% over costs.

Even if the percentages assigned are off significantly, they probably have not shifted dramatically over the decade, so in any case show downtown being at best a much less profitable enterprise for the city than it was ten years ago before many of the capital “improvements” were underway. If we are to depreciate these improvements, we will have to add another \$20–\$30 million a year to the cost of running downtown each year.

Clearly, downtown—as a revenue producer for the city—has lost ground despite all the money being poured into it. We can only guess what sort of gains would have been produced for a similar investment over the last ten years in permanent new jobs, rehabilitated housing, or even simple but often ignored public amenities. Or if the money had been used in parts of the city that were crying for economic development. Instead, it was put in a place where it not only did not produce an improved financial situation, but left the city worse off than it was before.

LOCAL ISSUES IN NEIGHBORHOOD CONSERVATION AND HOUSING REHABILITATION

(By Rolf Goetze, Director of Housing Revitalization and Conservation Programs, Boston Redevelopment Authority)

This paper explores several ways in which neighborhoods revitalize, then discusses the optimal public sector roles in encouraging such housing upgrading, and finally examines common ways in which public interventions often inhibit the process.

Ebb and flows of neighborhood confidence shape the future

Neighborhood deterioration is a complex phenomenon basically caused by a loss of confidence in the neighborhood's future on the part of many actors variously involved. These can include potential buyers, existing residents, real estate brokers, lenders, media personnel and public officials. Individual histories vary, but the aggregate of actions adds up to “disinvestment”, no longer putting as much

effort, resources and faith into the neighborhood as before. These are the informed conclusions of our research on neighborhood evaluation.

Revitalization is a resurgence of confidence in the neighborhood's future, often a reaction signaling that the neighborhood was overdiscounted or too pessimistically viewed by the web of actors affecting it. In the main, market forces make these assessments—and the role of planners and policy makers is to detect and modify these market forces.

Two Cases: Gentrification and incumbent upgrading

Some illustrations of revitalization will explain what I mean. In some cases, a very visible in-migration of more affluent newcomers signals this change in confidence, a process the British call "gentrification", in which higher class residents "discover" the neighborhood and take it over. In many cases the lack of confidence may have been primarily on the part of lenders or brokers in not showing the area to all potentially interested replacement buyers, not on the part of the residents themselves. Here the existing residents or incumbents upgrade their properties as they discover that conventional mortgages and home improvement loans are again available and that congenial buyers are replacing owners who have died or moved out for natural reasons like job transfers. In contrast to "gentrification", there is much less displacement in "incumbent upgrading", but in both these types the flood of discretionary sales has abated. (Rapid turnover by households leaving because they believe the area has a dim future often signals disinvestment.)

To understand the role of public policy better, let us examine two cases, focusing on salient stages. Bay Village in Boston underwent "gentrification" in four stages. In 1950 this area was very shabby with high transiency, and many lodging houses. Stage One began as members of the gay community renovated and even totally rehabilitated some of the most deteriorated properties for their own use and on behalf of others. There was little displacement and conventional financing was very difficult to obtain. In Stage Two an alert real estate broker, who recently moved in himself, began promoting the neighborhood to young professionals seeking bargains. Bay Village Neighborhood Association was formed by a core of long term residents to obtain some neighborhood improvements. Market demand increased, leading to conversion of more rooming houses and some displacement. Financing was still a problem.

In Stage Three, Urban Renewal came in to upgrade the infrastructure (sidewalks, light, parks) making financing more widely available. And now, most recently this revitalized area draws in middle and upper income families paying "top dollar." The resident socio-economic class of the 1940's has been replaced fairly gradually by a higher one. This process now happens more radically and suddenly, in many cities, most notably in Washington, D.C.

"Incumbent upgrading" can be understood by considering Pittsburgh's Neighborhood Housing Services (PNHS), now in the process of being copied in scores of cities under the influence of the federal Urban Reinvestment Task Force (UTRF). PNHS began with Ford Foundation funded grass roots organizing, building neighborhood confidence, fighting encroaching slumlords and challenging the private sector to offer credit. This allowed public sector code enforcement to become effective. An imaginative special loan fund was created to assist those who could not afford conventional loans for fix-up while the code enforcement process was tailored so that fix-up was within the financial grasp of the majority of area residents. As these saw the area improve, they willingly met the \$20-40 monthly increased housing costs. Owners of course, experienced appreciation, and this increase in property values makes recovery of the outlays from the special loan fund possible as the properties of households on restricted incomes are eventually sold. While PNHS has admittedly experienced some displacement in later stages as market forces discovered the potential value of housing in the area, this model makes it possible to bring in subsidies so that those who wish may remain.

Several elements stand out in this review. The resurgence in confidence is somehow signalled to the network of actors who all have roles in maintaining the neighborhood. The in-migration of the "gentry", the young professionals, in the Bay Village case is a signal that travels by itself, but PNHS was able to communicate confidence to those in the public and private sectors who were in the process of "writing-off" the area. This modified their behavior, improving municipal services, restructuring code enforcement, and revising lending underwriting criteria.

Where fix-up is beyond the means of the existing residents, resources must be introduced in ways to help needy households, but that do not result in more discretionary sales, the departure of stronger community members who sniff "welfarism". In the last section we return to this critical issue.

Optimizing the public sector roles

As yet there is little research on how neighborhood well-being can be monitored or confidence rebuilt—and without this sensitivity planners and policy makers who seek to revitalize neighborhoods are confused by conflicting public policy objectives. Which is most important: fixing up houses, restoring the tax base, promoting integration, housing the disadvantaged, or bringing back the middle class to urban living?

To simplify the discussion, let us consider the following objective for a set of revitalization strategies: to promote neighborhood market stability and optimism about its future in ways that enable incumbents to remain. Before delivering a blue print for attaining this objective we must discuss what it excludes as well as includes, how public interventions are inherently more limited than is generally recognized, and further, how severely deteriorating neighborhoods pose special problems to this type of revitalization.

This goal of stable revitalization with incumbents is limited to "in-between" neighborhoods. It is not gentrification, which simply shifts the stock out of the moderate income housing inventory, while improving the tax base and bringing in higher income households. In moderation, such young affluent households may set a valuable example, as in Stages One and Two of Bay Village, but if the gentrification process is not checked at that time, displacement occurs. On the other hand a heavy-handed pursuit of racial or economic integration in areas about to revitalize on their own may undermine resident owner (and private sector) confidence. This in turn prompts disinvestment and discretionary sales, making the neighborhood worse off than if it were left alone to private market forces (which would at least have brought in the more affluent and improved the tax base).

The basic municipal role is to provide public services and infrastructure (schools, streets, sewers, police, parks, recreation, etc.) and to regulate private sector activities (zoning, code enforcement, tax policies, etc.) Society has grown more complex—and having one set of across-the-board standards no longer works, be they for code enforcement insurance or credit underwriting. Policy must be formulated within an awareness of the nature and strength of housing demand to determine which areas are best candidates for this revitalization. Appendix A, reproduced from *Building Neighborhood Confidence*, (Ballinger, 1976) suggests how such an assessment of neighborhood strength can be undertaken.

The public sector can only modify demand at the margins, increasing it where it is weak, and "cooling it" where it is leading to dislocation and speculation instead of stable, rooted home ownership. In the most seriously deteriorating areas there is little along the lines of a housing strategy that is likely to prove effective. As is argued more fully in *Building Neighborhood Confidence*, a jobs and income maintenance or housing allowance strategy is required here, without which these disadvantaged lower income households will bring blight with them as they move from areas experiencing abandonment and erosion. Near such areas, disinvestment has often been going on for several years and it is too late to achieve any reversal of attitudes through the traditional policy instruments of code enforcement, insured loans, fix-up grants, etc. The needs of the critically disadvantaged in severely deteriorated housing must be addressed directly through income transfers or the like, otherwise the housing efforts to revitalize more marginal areas will be challenged by the disadvantaged, their legal advocates, and factions in the Department of Housing and Urban Development (HUD). (The furor raised by Anthony Downs' concept of "triage" illustrates this opposition.)

Until some public policy is developed for the critically needy, public intervention will find it difficult to steer a course between aiding the affluent pioneers stimulating revitalization ("Socialism for the rich") and inadvertently stopping it in its early stages by insisting on inclusion of the critically needy into the revitalizing neighborhoods.

The optimal in-between course is a matter of building confidence among all the relevant actors in the early stages, but then enabling the incumbents to remain through the later stages, when improvements raise expectations which lead to increasing property values and speculation. Fine-tuning public and private bureaucracies so their actions feed back to stabilize the market is not easy, until some indices or "barometers" of homeowner and investor confidence are developed, but the basic tools to be applied are currently available.

The basic strategy is to focus on the primary actors: resident owners and potential replacement buyers. During the stages when confidence is weak, particular programs like federally assisted code enforcement coupled with visible public improvements and good credit for replacement home buyers can be beneficial if administered in ways that boost the neighborhood's sense of well-being. However, entry of federally subsidized loans and low down-payment mortgages may be interpreted as a signal by brokers and conventional lenders that the neighborhood is threatening to deteriorate, rendering such assistance counter-productive.

PNHS illustrates a blue print for the Early Stages: how public sector "carrots and sticks" can best raise confidence and leverage private investment. Essentially PNHS builds confidence by generating momentum and dealing with the "one out of five" unbankable situations to make the rest of the needs bankable propositions. There are five critical elements: (1) target neighborhoods (to focus action based on community initiatives—public interventions or city-wide efforts are much less likely to succeed); (2) public investment (to immediately demonstrate public commitment to the neighborhood); (3) systematic code enforcement (to stimulate *all* owners to do their part); (4) subsidized loan fund (to assist those unable to afford conventional financing) and (5) private sector investment (to assure that the conventional market continues and is not scared away).

While much of this sounds self-evident, it rarely turns out that way. Forces other than community initiative often determine the area, yet experience shows any effective flight against decline depends on initiative and promotion from within the neighborhoods. Attempts to save a declining neighborhood solely from the outside generally fail. Public investment is commonly delivered late and long after it would be most effective. As for code enforcement, cities should adopt a "turnover" type of enforcement strategy, with the inspection results translated into a write-up and specifications of the necessary remedial work. Service should be emphasized and punitive aspects played down. It should be at occupancy turnover whenever possible because at this time sales price is established, financing is negotiated, repairs and redecorating are considered, new rents are set, etc. Code standards must be at levels the majority can meet (they often are too high), and tenant responsibilities must be reaffirmed.¹ Subsidized loans must be administered so that only the needy (by common agreement) receive them, otherwise everyone will seek them and do little until they do. The private sector must remain involved. Too often public interventions have simply displaced private actions, so nothing is leveraged and dependency on the public sector is fostered.

In later stages public sector responsibility must shift focus to prevent speculation and displacement, as the upgrading process builds its own momentum. Tax policy must be carefully administered to aid and prevent overburdening incumbent owners. If possible reassessing only upon resale. Also, incumbent lower income tenants might require housing assistance so they can afford to remain in structures bought by new owners, because these will have increased mortgages. (To subsidize the new owners directly, or control rents will not assure that incumbent tenants can remain.) In principle it is best to aid the housing consumer, rather than the supplier, because the social forces of gentrification, displacing the poorer households, are hard to quench once aroused.

Finally, there are some new public sector roles, as yet experimental. Replacement demand can be seen as a function of lender policies and media images. Maintaining neighborhood confidence involves countless subjective investment decisions by a host of actors who no longer interact directly with each other. For instance, the local banker is often replaced by a mortgage company reselling its investments in the secondary market. In Boston there is experimentation under a HUD grant to see how this climate can be understood and modulated.

Avoiding counter-productive public interventions

Successful revitalization without gentrification has proven fairly elusive. This concluding section examines some of the more common pitfalls: (1) conflicts in publically mandated goals, (2) red tape blight, and (3) helping the "wrong" actors.

Goal conflicts were mentioned at the outset of the previous section, but we seldom trace out how each of the well-intentioned goals may block attainment of others. (The conflicts in HUD's agendas are not noticeable because the various

¹ Building Neighborhood Confidence, pp. 89-92 discusses appropriate code enforcement in more detail.

strategies have not been backed by enough resources to show results.) Gentrification visibly improves housing conditions and the long term tax base, but by definition it is the opposite of economic integration. However, wherever gentrification is occurring, it is a major temptation for the public sector to be involved in the action to claim a share in the accomplishments, particularly when the lenders and the media hail the results as success. To attempt to slow gentrification would simply be seen by these as preventing more success.

Red tape blight is a tangle of several elements: too much paperwork, diffusion of responsibility among a myriad of public agencies, and unaccountable delays in delivery. Whole books could be written on bureaucracy, so what can we briefly say here?

An overall reorganization and reorientation of all public agencies connected with housing emphasizing service delivery will usually be required if the public sector intends to take the lead. Reorganization will work only if it changes prevailing norms and institutes greater accountability, so that personnel become more sensitive and responsive to resident needs rather than simply maintaining a peacefully sheltered existence within their bureaucracy. Opening agency decisions and records to public scrutiny—a form of disclosure—improves accountability and enables citizens to understand what standards guide agency actions and to deal with the bureaucracy to sharpen its awareness of goals. New hiring and promotion criteria emphasizing sensitivity could reshape bureaucracies as the rank and file discover new models to emulate. Simply "rewarding the faithful" is not enough if the public sector is going to meet the challenges that lie ahead. Accountability, something most bureaucrats fear, must be achieved.

"Rewarding the wrong actors" is a consequence of bureaucratic myopia or tunnel vision. At the outset a simple "pump-priming" concept prevails where some limited public interventions are expected to restore conventional functioning of the market system. As the anticipated results fail to materialize, "leveraging" becomes the new byword, a modest stream of public resources seen as yielding a generous flow of private effort and investment. But as no "leveraging co-efficient" is established there may be less and less leveraging. Giving 3% twenty year home improvement loans can easily result in all wanting it and even deferring maintenance as they wait to qualify. The end result is complete dependence on public support.

If we knew better what would happen in the absence of public intervention, then we could employ our scarce public resources more wisely to modify the upgrading in ways consistent with the public interest. The "pump-priming" and "leveraging" stages are appropriate for intervening with subsidies, but a timetable for phasing them out as well as clearly defined eligibility criteria are needed to prevent false expectation. The "right" people are the first newcomers who begin the work of upgrading and the lower income incumbents; the "wrong" people are the later owners who appear when momentum already promises success, or more sophisticated rehab developers who have learned to manipulate complex public assistance programs but ultimately do little good for the neighborhood.

The most effective strategy for avoiding these pitfalls facing the public sector is to keep supports as simple as possible, and to limit eligibility to a time period of at most two years. This will generate the desired momentum, and reward the initiators, but not those who seek advantages from the initiatives of others. Avoid overloading a simple program with multiple public objectives like employing unionized labor, conducting redundant public reviews, etc.

As a final note, urban revitalization will be becoming more prevalent. A major housing crunch is developing as rising numbers of newly formed households find good housing is scarce everywhere. This crunch, coupled with commuter/energy concerns, the quest for new lifestyles, and the increased respect for our past indicate that new forces will be combining to recycle many of our urban areas. The public sector can join the challenge and facilitate this process in its critical early stages. The benefits are immense because each unit saved from disinvestment requires only a little labor—instead of the high resource and capital costs entailed in its replacement. But to play this exciting new role effectively requires a public commitment, accountability, and sensitivity that bureaucracies have rarely mastered—and therein lies the real challenge.

NOTE.—This paper was prepared for the National Association of Housing and Development officials, under a grant from the German Marshall Fund of the U.S.